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BRITISH ECONOMISTS

BY
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UNIVERSITY OF DURHAM



LONDON
SIR ISAAC PITMAN & SONS, LTD.
PARKER STREET, KINGSWAY, W.C.2
BATH, MELBOURNE, TORONTO, NEW YORK
1931

**PRINTED IN GREAT BRITAIN
AT THE PITMAN PRESS, BATH**

PREFACE

THIS little book is intended to serve as an introduction to an important, and even indispensable, branch of economic studies. The general recognition that economics can never turn its back upon its own past makes it unnecessary to attempt either to justify or even to commend the study of the history of economic doctrine. Economic theories die hard, if, indeed, they die at all; and even those who aspire to only an elementary knowledge of the subject will find some acquaintance with the history of theory indispensable for a right understanding both of modern economics and of present day controversies.

The present sketch therefore seeks, in the first place, to provide the beginner with the indispensable minimum of information about the greatest of our British economists. The biographical method of treatment has been selected as affording the easiest approach to a somewhat difficult subject; and the most important works in our economic literature have been briefly reviewed in connection with the lives of their authors. In this way it is hoped that the book may serve as an introduction to the study of the greatest of our economic classics.

Economists have always been impelled to pay a great deal of attention to the writings of their predecessors. Accordingly, there has grown up a considerable body of literature devoted to the history of economic thought. The pages that follow are, therefore, in the second place, an introduction to this modern literature on the subject. In order that the student might be furnished with a summary as authoritative as the nature of the

subject permits, the best modern works have been laid under heavy contributions. An extensive indebtedness demands an ample acknowledgment; and it is hoped that the references throughout the work will serve both as such acknowledgment and as guides to the student for further reading.

FRANCIS C. HOOD.

1st May, 1931

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BRITISH ECONOMISTS

CHAPTER I

INTRODUCTION

ECONOMICS is a science, and in general science knows no national boundaries. Yet good reasons may be given for devoting the space at our disposal to British economists to the exclusion of those workers in other lands who have advanced the bounds of economic knowledge. Without incurring the reproach of a prejudiced insularity, we may claim that the British economists did more than those of any other land to establish that science of political economy from which our modern economics descends and to which it is so much indebted. Moreover, a certain insularity in the outlook of some, at least, of the British economists themselves makes it easier for us to view their work with but passing references to external influences. Even were our attention to be given mainly to the development of a body of scientific economic doctrine, our limitation would not be wholly absurd.

Our title, however, implies more than this. Economics makes a legitimate appeal to the curiosity of the philosopher intent on the discovery of truth as an end in itself, but the study makes a more general appeal to those who seek to wrest from it some guidance in practical affairs. The great economists have usually responded to both of these appeals. Even when they have shunned practical controversies and have sought to formulate principles of universal truth, their work has often been inspired by the hope that indirectly it

would influence practical decisions and promote social welfare. In most cases they have not hesitated to draw from their principles conclusions applicable to the problems of their time. Since economics cannot be an exact science, since it can rarely provide conclusions immediately applicable to practical affairs, the practical conclusions at which economists arrive are, to a greater or lesser extent, according to the nature of the problem, influenced by personal factors, by political or moral assumptions. A great economist should therefore be studied from a number of different angles. We should try to see what contribution he makes to the development of economic theory as an instrument of thought or a body of scientifically established doctrine. Then we should examine the use which he made of this instrument of thought as a guide in practical affairs, studying the nature and the extent of his influence in shaping economic policy. Moreover, an economist must always be placed in his historical setting in order that we may discern the theories and facts of his own time which exerted the greatest influence on his development, and so determine how far his times explain his thought, and how far it is out of date and inapplicable to our own times.

These considerations explain the manner in which we shall approach our subject. Since Socialism forms the subject of a separate book, Socialist writers will be excluded from our survey, and even amongst more orthodox economists the less important figures will be largely ignored in order that we may concentrate attention upon the great men and the epoch-making books.

These works are the primary authorities for a study of British economists, but the student will receive inestimable help in appreciating this original material from a number of secondary authorities. The author

gladly acknowledges his own great indebtedness to many of these works, whose influence upon the present sketch is everywhere apparent. At the end of many of the sections a reference will be given to those secondary authorities upon which the author has most relied, and to which the student should go for a fuller treatment of the subject. At present, his attention may be drawn to two such works of a more general character. *Political Economy in England* (L. L. Price); *Theories of Production and Distribution* (E. Cannan). The first is an elementary outline, the second an advanced and highly critical study of some of the theories of the classical economists.

Adam Smith and His Forerunners. A sound tradition acclaims Adam Smith as the father of political economy. Yet even a sound tradition may convey a false impression unless its basis is examined. Adam Smith was, of course, by no means the first to write upon economic subjects, for economic discussion of some sort or other goes back to very ancient times. So great was his debt to his forerunners that some students have sought to demolish his claim to greatness by exhibiting the extent of his indebtedness. As will be seen, he possessed more originality than some of his critics once conceded; but, quite apart from this, the fact that his work has lived, and has exercised so great an influence over educated thought, whilst that of most of his contemporaries and predecessors is dead save to the specialist student, is in itself sufficient to place his greatness beyond dispute. It is impossible to know too much about the sources and origins of a great man's thoughts, and those who lay them bare deserve our gratitude, but the labours of the specialist cannot on such a question as this reverse the judgment of generations of educated opinion. The attempt to do

so really arises from a mistaken idea of what constitutes a great achievement. It is the nature of great thinkers to climb upon the shoulders of smaller men. Their greatness generally consists in combining into a regular and orderly whole the stones which others have fashioned. Usually they add stones of their own, sometimes even providing the keystone for an arch, but their real greatness is best revealed in the plan of the structure. If we are tempted to think such an explanation of greatness really explains it away, we may reflect what a world of difference there is between a heap of stones and a cathedral. Many people besides Adam Smith had the desire to use the available stones to build an edifice of thought; for by the middle of the eighteenth century a good deal of the work preparatory to the foundation of a scientific political economy had been done. A number of men in different lands wrestled to found the new science; none succeeded so well as Adam Smith, and his enduring fame, the rightful reward of his success, has eclipsed the memory of his less successful fellow-labourers.

Philosophers and Pamphleteers. Up to this time economic discussion had been largely of two distinct orders. On the one hand, philosophers had often been led to treat of topics properly economic in the course of broader investigations into the foundations of society and of government. In this way economic discussion had found a place in Greek philosophy, and it was still finding a similar place in the writings of British and foreign philosophers in the seventeenth and eighteenth centuries. On the other hand, practical questions of economic policy, especially such as concerned foreign trade, national finance, and the rate of interest, had given rise to a considerable literature consisting mainly of pamphlets devoted to some special inquiry. The

seventeenth century was an age of keen economic discussion, but as yet there was nothing that could be called a science of economics ; and before such a science could come into existence a double task of isolation and of unification had to be accomplished. In the first place, economics must be detached from moral or political philosophy, for the first step towards the creation of a science is the isolation of a particular subject-matter for separate study. The older philosophers attempted too broad a survey to achieve much in the sphere of economics, and only the greater concentration that results from a narrowing of the field of inquiry would enable the best results to be wrung from the sufficiently large and complicated body of economic facts. In the second place, the work of the economic pamphleteers required co-ordination and unification. If the philosophers had been too broad in their survey, the pamphleteers had been too narrow. Their handling of the special problems which excited their interest, though generally acute, suffered from their failure to appreciate general economic principles and from their inability to view the part in relation to the whole. They were tackling their jobs with comparatively ineffective tools. Before these particular questions on which they expended their strength could be mastered, the workers on them had to be provided with a suitable engine of thought in the shape of general economic principles. The parts had to be assembled to make a whole, and the real meaning of each part could not be seen until it had been viewed in relation to the whole. Nor could the creation of such a unity be achieved simply by bringing the parts together ; no matter how many of the economic pamphlets of the time had been bound together in one volume, the result would not have been a scientific treatise on economics.

It was necessary to find some unifying principle before a real unity could be created.

Adam Smith's Achievement. It is not the least of Adam Smith's achievements that he saw and applied the real unifying principle. He saw that the fundamental economic fact was the exchange of commodities and services for one another, and hence that the theory of exchange value provided the requisite central and unifying principle. In comparison with this his isolation of economics by separating it from moral and political philosophy is of secondary importance, for others had done, or were doing, this equally as well as he. But no other succeeded so well in the more difficult task of unification. He formulated a theory of value and applied it to every problem that he handled. In this way he treated all the important economic topics of his day in connection with one another. As a result, there emerged for the first time something that could properly be called a science of economics, and therefore Adam Smith is justly reckoned the father of that science. He was, of course, no more impeccable than fathers in ordinary life. A father is simply the founder of a race, and the race of modern economists which descends from Adam Smith has often been stiffnecked and rebellious, delighting to expose the shortcomings of its ancestor. It is a commonplace that the children are wiser than their father, for their heritage is greater. Seen in historical perspective, the achievement of Adam Smith has been surpassed by none of his successors; for by him the decisive step was taken into the domain of modern economic thought, and it was, moreover, as long a step in itself as any taken by even the most rebellious of his descendants.

It was hardly an accident that the modern study of economics was begun by a Scotsman in the eighteenth

century. Scotland was then the scene of an intellectual renaissance, which produced a group of great men who gained for themselves European reputations in different branches of knowledge. Of this group, Adam Smith was one of the most important members; and the position which he won for himself amongst so many brilliant contemporaries is in itself a witness to his powers. At the same time, Scotland was also experiencing a commercial renaissance, largely as a result of the union with England. In Adam Smith the intellectual and the commercial renaissance met; and economics as the science of business was the product of their meeting. The special interest which always attaches itself to a founder, therefore, entitles Adam Smith to a larger place in this sketch than can be given to any of his successors. The man himself repays study as well as his work; for no one can read more than a page or two of the *Wealth of Nations* without recognizing in its author not merely a great thinker, but a great personality. Meanwhile the student may be referred to *Growth of English Industry and Commerce* (Cunningham), Vol. II, Part I, Section X, and to *Principles of Economics* (Marshall), Appendix B, upon which the present section is largely based.

CHAPTER II

ADAM SMITH (1723-1790)

BEFORE approaching the *Wealth of Nations* it is desirable to form some impression of the man who wrote it. The child of an Aberdeenshire father and a Fifeshire mother, born in the small seaport town of Kirkcaldy, he drew his descent from two counties noted, even in Scotland, for a hard-headed sagacity, which, however, as Adam Smith himself, and many another, has shown, is not incompatible with a sensitive scrupulousness and a real generosity. He received the best education which his age and his country afforded, an education conceived on broad and liberal lines, so that no man was less of a narrow specialist than the author who sang the praises of the division of labour. At different stages in his career as a university student at Glasgow or at Oxford, mathematics, classics, philosophy, and literature bulked largest in his work. At Glasgow he was influenced by his teachers, and notably by one, Hutcheson, whose lectures introduced him to the academic study of economic problems, and whose zeal for political and religious liberty possibly strengthened his pupil's own liberal convictions. At Oxford he read steadily and hard for six years, apparently without being much influenced either by his fellow-students or by those who were presumed to direct his studies. On leaving Oxford he gave public lectures on English literature in Edinburgh for a time; and then in 1751 he was appointed Professor of Logic in Glasgow University, transferring in the following year to the more congenial chair of Moral Philosophy.

A Glasgow Professor. He remained at Glasgow from 1751 to 1764, and this period constitutes the decisive stage in his intellectual development. During these years he laid the foundations of his reputation by the publication in 1759 of his *Theory of the Moral Sentiments*, in which sympathy is treated as the source of ethical judgments, and he also developed in his lectures the most characteristic of the economic doctrines which he was later to give to the world in the *Wealth of Nations*. A favourite pupil has left on record the general scope of the courses of lectures which he gave as Professor of Moral Philosophy. After dealing with natural theology, ethics, and jurisprudence "In the last of his lectures he examined those political regulations which are founded not upon the principle of justice but of expediency, and which are calculated to increase the riches, the power, and the prosperity of a state. Under this view he considered the political institutions relating to commerce, to finances, to ecclesiastical and military establishments. What he delivered on those subjects contained the substance of the work he afterwards published under the title of *An Inquiry into the Nature and Causes of the Wealth of Nations*."

The important point in this quotation is not the statement that Adam Smith was devoting special lectures to economic subjects, for in doing so he was merely carrying on the tradition of the chair which he occupied, but the assertion that these lectures contained the substance of the later treatise. This assertion was for long discounted or discredited by critics who sought to decry Adam Smith's originality and to magnify the later French influences upon his development. Then, about thirty years ago, the assertion was completely vindicated by the discovery of the notes

taken by a student who attended the lectures in 1763; and we find in them what was really a first draft of the published work. It follows that Glasgow, and not Paris, occupies the central place in Adam Smith's career.

The Glasgow of his time must have been a perpetual inspiration to a budding economist. In the middle of the eighteenth century Glasgow was still a small provincial town with less than 25,000 inhabitants. Inter-course between men of different professions was easy and professors and merchants mixed freely. On the other hand, the city was a prosperous and a bustling place, for it had already started upon its marvellous career of commercial expansion. It was a centre of intellectual as well as of commercial activity; and to some extent the two went hand in hand. One of the leading merchants had founded what was probably the first political economy club in the world; and when he went to Glasgow as a professor Adam Smith became a member of this club. In it there met, for the discussion of practical economic questions, merchants who were rising in fortune and were largely unhampered by traditional prejudices in their desire to make the most of the new opportunities that were almost daily presented to them, and a brilliant group of university professors, who were drawing to themselves and to their university the admiring eyes of educated Europe. Adam Smith thus saw, at close quarters, and with an intimate knowledge of the men chiefly concerned, the rapid growth of a city's fortunes, due, not to the system of trade regulation, but to the energy, enterprise, and acquisitiveness which he noted in his commercial friends.

A Travelling Tutor. In 1764 he gave up his professorship to become tutor to the Duke of Buccleuch. The step

was an important one for two reasons in particular. In the first place the financial terms were generous, and they enabled him, after his three years' tutorship was over, to retire on a competency and to devote himself to study and writing unembarrassed by academic work. In the second place the tutorship, as was then customary, was a travelling one. It was spent in France, and it brought Adam Smith into close contact with the economic facts of a foreign land and into personal touch with French thinkers. It was at Toulouse in 1764 that he actually began work on the *Wealth of Nations*; and in 1766 at Paris he enjoyed the intimate acquaintance of a notable group of French economists, who shared his opposition to traditional views of economic policy. Adam Smith had much in common with these men and he was led in some part to expand his views as a result of their influence. He refused, however, to go all the way with them; and his independence was justified by the result. For epoch-making as was the work of the physiocrats, as these French writers were called from their enthronement of Nature as the supreme guide in economic affairs, their creed was in many respects a peculiar one, and they just missed that success which attended the labours of Adam Smith himself in founding a science of economics. Hence their influence is not comparable with his.

Later Life. In 1767 he returned to his native Kirkcaldy to write the *Wealth of Nations*. In 1773 he took it to London for publication; but there further study and discussion caused him to make extensive additions and alterations, so that it was not finally published until 1776. It had an immediate effect upon the personal fortunes of its author. Although he was a Whig in politics, and although his volumes contained a reasoned and damaging onslaught both on traditional

policy and on recent measures, Lord North, the Tory Prime Minister, with characteristic generosity, appointed him a Commissioner of Customs for Scotland. In this office he spent the remainder of his life at Edinburgh. His closer contact with practical affairs enabled him to effect some improvements in detail in later editions of the *Wealth of Nations*; but it prevented him from executing other literary work which he had once contemplated. Yet it is significant that the great advocate of Free Trade was himself versed in the details of customs administration, by personal experience towards the end of his life, and earlier by family tradition, for his father, who died before he was born, had been a customs officer, and he had a cousin in the same service.

This brief sketch will fail to achieve its purpose if it does not bring out the breadth of Adam Smith's genius. The father of political economy was much more than an economist. He brought to the study of economics a mind richly furnished with all sorts of knowledge both of men and of books, and that balanced judgment and sense of proportion which are the products of a liberal education.

Personal Characteristics. His personal character contained many attractive traits. The three ways to his heart were his mother, his books, and his political opinions. He was a man of many secret charities and of a most sensitive nicety in monetary affairs. When, in 1764, he broke off his course at Glasgow in the middle of the session, he not only provided a substitute, but insisted, almost to the point of physical violence, on returning their fees to his students. When he received his official appointment from Lord North, he desired to relinquish his pension from the Duke of Buccleuch, a proposal which his former pupil would

not entertain. The father of political economy was the least mercenary of men.

His absence of mind was colossal. It led him into many amusing escapades which established his reputation as a "character." He walked into a tan-pit, tried to make tea with bread and butter in the pot, copied another man's signature to an official document instead of adding his own, and, worst of all, scandalized the dignified usher at the Customs Board by gravely and unconsciously imitating with his walking-stick the complicated salute accorded to him as a Commissioner. Stories of this sort often seem to bring a great man down to, or even below, our own level; and we flatter ourselves that we are more practical. In most cases this is a delusion; certainly Adam Smith was regarded by those who knew him best as a man in whose hands their business would be safe. The attractive legend that the father of political economy was a child in matters of business has no real foundation.

Life of Adam Smith (John Rae) is the standard biography.

The Wealth of Nations. Viewed in a historical light, the *Wealth of Nations* is undoubtedly the greatest work in economic literature. It was by no means a perfect work even on the day of its publication; still less could it to-day be put into a student's hands as a wholly satisfactory statement of economic doctrine. Much of it, moreover, being relevant to conditions that have passed away, is now only of historical interest. Yet nobody entirely unacquainted with the *Wealth of Nations* can be held to possess a tolerable education in economics. It was addressed not to specialist students but to the educated public of its day, amongst whom it found ready and eager readers. Its first and great merit, then, is that it was, and is still, found

readable by those who possess general culture but lack any specialized interest in economics. It has a place not merely in economic literature but in general English literature.

Nothing would be gained by an attempt to summarize the contents of a book whose peculiar power can only be appreciated by reading it, either as a whole or in part. To those who desire to gain some knowledge of Adam Smith at first hand, but who shrink from reading the work through, it may be suggested that they read some of the chapters of the Fourth Book. From these they will gain a fair knowledge of his attitude to his subject, and they may be encouraged to pursue the acquaintance further. Attention will here be drawn only to some leading characteristics which give its distinctive quality to the book and illustrate the general attitude of its author.

The Study of Wealth. His purpose was to investigate the causes which influence the annual supply of the "necessaries and conveniences" of life; or, in the words of his title, he institutes an inquiry into the nature and causes of the wealth of nations. That such should be the object of a work in economics seems too obvious a point to be worth making. So it is; after Adam Smith has once made it; but he was really the first to make it. His predecessors, of course, had had much to say of wealth; but their first consideration had always been something different, generally national power rather than national plenty. Now Adam Smith did not consider that the acquisition of wealth was an end in itself; he recognizes in the *Wealth of Nations* that what is economically best may not be politically or morally best; and he would probably have yielded a ready assent to the proposition that ethics is concerned with the determination of right ends and

economics with the consideration of appropriate means. Until the nature and causes of wealth have been studied by themselves it is really idle to discuss the moral or political purposes for which wealth should be produced or used. In propounding the wealth of nations as his subject, Adam Smith is separating economics from ethics and from political philosophy and establishing it as a new science. He goes much further than his predecessors because his objective is better defined.

In view of the conflict which later emerges as to the appropriate method to be adopted in economic studies, it is worth noting that Adam Smith uses both of the ordinary methods of scientific reasoning; and now, when the fires of controversy have long been dead, modern practice agrees with his in finding that different methods are appropriate to different parts of a many-sided subject. Adam Smith used that deductive method of reasoning from general principles, which at a later date became dominant in English political economy, and which is still recognized as an indispensable instrument of economic analysis. But he also argued inductively from observed or recorded facts, and in particular he made a very considerable use of history. In his work the use of the two methods is so blended that it is often difficult to say that a particular conclusion is based upon general principles or upon observed facts. At any rate, he is never satisfied with a theory based upon abstract reasoning until he has tested it by an appeal to facts; and he had a wide knowledge of history and of curious and out-of-the-way facts. This appeal to fact not merely strengthens the reader's confidence in the reasoning but makes the book more interesting and entertaining.

The Restrictive System. Adam Smith is best known as an advocate of economic freedom, and the grounds

and content of his teaching on this subject deserve special attention. Many others besides him attacked the contemporary system of regulation, which interfered with individual liberty at many points, and which was obviously productive of abuses. The system was too complex to be described in full, but its general nature can be illustrated from some of its features. A complicated customs system, characterized by high duties and numerous prohibitions, made smuggling a common and a popular calling. Poor law regulations limited the freedom of movement of the labourer and so hampered the migration of labour. The privileges of chartered corporations and companies shut out many from occupations which they might profitably have pursued. While the actual working of such a system of regulation was being increasingly criticized, those who pointed to abuses were almost unanimously agreed that some regulation of commerce and industry was necessary; and they directed their attention to the discovery of an ideal system of regulation from which abuses would be eliminated.

The Argument for Economic Freedom. Adam Smith's originality lay in his contention that economic progress did not depend upon any system of regulation, however ideal, but upon natural forces, whose working the regulations of government might impede, but fortunately could not prevent. He leads up to this conclusion by two different lines of argument. In the first place, he argues from the known propensities of human nature. In seeking wealth men pursued their own interests, and they were themselves better judges of what these interests were than others could be. But, in seeking their own gain, they were led, "as by an invisible hand," to increase the wealth of the nation. General economic good emerged from individual

self-seeking. In the second place, he examines the mercantilist system of regulation, as it actually existed, and the ideal system proposed by the French physiocrats, and his criticism of these leads up to the grand conclusion—

It is thus that every system which endeavours, either by extraordinary encouragements, to draw towards a particular species of industry a greater share of the capital of the society than would naturally go to it; or by extraordinary restraints, to force from a particular species of industry some share of the capital which would otherwise be employed in it; is in reality subversive of the great purpose which it means to promote. It retards, instead of accelerating, the progress of the society towards real wealth and greatness; and diminishes, instead of increasing, the real value of the annual produce of its land and labour.

All systems either of preference or of restraint, therefore, being thus completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord. Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest in his own way, and to bring both his industry and capital into competition with those of any other man or order of men. The sovereign is completely discharged from a duty, in the attempting to perform which he must always be exposed to innumerable delusions, and for the proper performance of which no human wisdom or knowledge could ever be sufficient; the duty of superintending the industry of private people, and of directing it towards the employments most suitable to the interest of the society.

Willingness to Admit Exceptions. To the general coincidence of private with public gain Adam Smith was prepared to admit exceptions. In some exceptional cases individual action must be overruled or supplemented by government action. Even his advocacy of Free Trade was subject to certain limitations; as defence was of much more importance than opulence, he has a good word for the Navigation Acts for the encouragement of British shipping, though they were not favourable to foreign commerce; and retaliatory duties

were beneficial if, but only if, they were likely to secure the repeal of the duties to which objection was taken. In some cases in which individual profit was an insufficient incentive, government action was necessary. The post office, for example, was, in his opinion, one of the few commercial enterprises which all governments had undertaken successfully. Especially noteworthy is his attitude towards education. He considered the provision of education for the common people too important an object to be left to the free play of competition, for private interest would not furnish an adequate supply. He therefore favoured a system of compulsory education, towards the expense of which both parents and public should contribute. This willingness to admit exceptions, even to his cardinal principle, is characteristic of that broad humanity which marked his work, and which saved him from the narrow rigour which so often mars the work of more abstract theorists.

Yet, in view of later criticisms and misunderstandings, it is necessary to emphasize the fact that Adam Smith's condemnation of the system of regulation was based as much upon the teaching of experience as upon general principles. He tested it by its working and found it wanting. The exceptions which he admits are notable, but they must not be allowed to obscure the fact that he was the apostle of economic freedom, in the sense in which freedom was generally understood in the eighteenth century.

A Free Trade Imperialist. In the years in which Adam Smith was engaged in the composition of the *Wealth of Nations* imperial problems were being raised in an acute form in the conflicts between the Mother-country and the American colonies ; and the publication of the book practically coincided with the American

Declaration of Independence. Hence Adam Smith devoted to the subject of colonies one of his longest and greatest chapters. In this part of his work he was influenced by discussions with Benjamin Franklin and others with colonial experience. On the economic side of the question he wrote with a moderation and insight that commands the respect of modern students. He distinguished between the natural good effects of the colonial trade and the evil effects of the system of monopoly applied to it. But while denouncing the system of monopoly he did not fall into the easy error of exaggerating its baneful effects. He did not think that that system had, as a matter of fact, greatly retarded the progress of the colonies, a conclusion which is supported by the work of recent American scholars.

Although eager for the removal of restrictions on colonial as on other trade, Smith desired to maintain and to draw closer the political connection both with America and with Ireland. He advocated a parliamentary union with Ireland and American representation in the Imperial Parliament.

Every writer on the *Wealth of Nations* must acknowledge his indebtedness to Professor Cannan, who has given us the standard edition of the work and who has done so much to elucidate its contents.

The Influence of "The Wealth of Nations." The *Wealth of Nations* was a scientific treatise, not a tract for the times. A hot-gospeller, set on practical results, does not devote to the preparation of his outpourings the time and the study that Adam Smith gave to a work which he began in 1764 and did not publish until 1776. Yet the book handles some of the most controversial issues of the time, and it exerted as decisive an influence upon policy as it did upon economic science.

Adam Smith quite clearly did not think that the economist should cherish a cloistered virtue; he did not dissipate his energies by indulgence in ephemeral controversies, but when his own work brought him into contact with practical issues he spoke out boldly and clearly. He was a Whig in politics, a believer in liberty with a theoretical preference for republican institutions, but his pronouncements on practical questions in the *Wealth of Nations* are scarcely ever those of a party man; and if some of his earliest converts were Whigs, the great Whig leader, Charles James Fox, quoted the *Wealth of Nations* in the House of Commons without understanding its principles and even without reading the book, while the younger Pitt, the founder of a new Toryism, was the statesman whose policy was most directly inspired by it.

The general nature of Adam Smith's achievement in the realm of economic science has already been sufficiently indicated. It is impossible, in brief compass, to illustrate in detail his influence upon subsequent scientific thought, for that influence was all-pervading. His book gained at once a European reputation; it was soon translated into many foreign languages, and it has been a source of inspiration to all later economists.

Influence upon Contemporary Statesmen. Adam Smith did not believe that his work would effect any sudden revolution in economic policy. On the contrary, he considered it Utopian to expect that freedom of trade would ever be entirely restored in Great Britain, for the prejudices of the public and the more unconquerable private interests of individuals seemed to him to offer an irresistible opposition. Nevertheless his work had an immediate influence upon statesmen, which continued to grow until the French Revolution put a stop, for the time being, to the accomplishment

of reform in Britain. Lord North borrowed some ideas for his Budgets from the *Wealth of Nations*. Lord Shelburne, Prime Minister for a few months in 1782, had long before been converted to Free Trade by personal intercourse with Adam Smith; as a practical politician he was a failure, but he consistently championed an enlightened economic policy. But the greatest of Adam Smith's converts was Pitt the Younger, who thoroughly understood, and partially applied, the principles expounded in the *Wealth of Nations*, and who gracefully acknowledged himself the pupil of its author.

In three directions especially did Pitt endeavour to apply the ideas of this master. He made some beginning with a simplification of the customs tariff, and effected some reduction in duties, with the gratifying result that smuggling was reduced and the revenue benefited. Adam Smith had criticized the extraordinary restraints imposed upon trade with France as especially unreasonable and injurious, and Pitt succeeded, despite Whig opposition, in negotiating and carrying through Parliament a liberal commercial treaty with France, from which Britain greatly benefited until the French Revolution brought about its abrogation. Pitt was not, however, successful in his attempt to remove the barriers to Irish trade with Britain, being defeated by opposition in Britain to the concessions, and by opposition in Ireland to the contribution to imperial defence which was to accompany them.

The Free Trade Movement. In this early reform movement, which came to an end when the spread of revolutionary ideas from France frightened moderate reformers in Britain, the influence of Adam Smith can be clearly traced; but it is not so easy to isolate that

influence in the case of nineteenth century movements. For other economists had arisen, and much was directly due to them. Yet many continued to go back to the founder, and Cobden in particular made frequent appeal to him. Moreover, the later economists learnt the principles of Free Trade from Adam Smith, although they elaborated a more satisfactory theory of international trade. So in a very real sense one of the greatest revolutions that has ever taken place in commercial policy owes much to his teaching. He has almost fulfilled the contemporary prophecy that "he would persuade the living generation and govern the next."

Adam Smith's Optimism. It is important to note some points of difference between Adam Smith and his successors. The years that separate them are not many, but they are years of exceptionally rapid movement, and they bring about fundamental changes both in economic conditions and in intellectual temper. The age of Adam Smith was in Britain an age of intellectual optimism, and he fully shared this temper. It is in striking contrast with the pessimism of his successors which will demand attention later. In Adam Smith's view economic forces were beneficent; even the misguided interference of government could not destroy, though it might weaken, their salutary influence. He was, moreover, in sympathy with a good many of the philanthropic movements which were beginning in his own time, especially with those which aimed at the provision of wider opportunities for popular education. He held that the great object of political economy, viewed as part of the art of statesmanship, was to provide a plentiful subsistence for the people. He recognized that where wages are high labour is usually more efficient, though, at a later part of his work, he seems

to accept the French theory that wages are fixed at the level of subsistence. He did not imagine that, even in the sphere of business, men are influenced exclusively by self-interest; and he himself often makes his appeal not to self-interest but to common humanity. His most outstanding constructive contribution to what was later called the "social question," is his insistence on popular education as a corrective to the specialization involved in division of labour, to whose dangers to individual character he was as alive as to its effects in increasing production. To appreciate the importance of this contribution, it must be borne in mind that he regarded differences in education as the most important cause of human inequality, and that he considered that, although provision for elementary material wants was a necessary condition for happiness, high thinking was more important than high living, and happiness was largely independent of wealth.

"Laissez-Faire." In the main, however, so far as economic policy is concerned, he was critical and destructive. Regarding individual enterprise as the most powerful factor in economic progress, he assailed those regulations of government which impeded its beneficial operation. It was also this part of his teaching which was most influential; and his authority was frequently, and legitimately, invoked in support of the nineteenth century policy of *laissez-faire*. Yet it would be a mistake to regard Adam Smith as the prophet of modern industrialism or the panegyrist of the capitalist. He wrote from the standpoint of the middle of the eighteenth century, when the changes which created modern industrialism were only beginning. He could not fail to recognize the important part played by capital and by capitalists in economic progress; and his general principle of individual freedom commended itself to the

new type of employer whom the Industrial Revolution brought into existence. Yet when the industrialists appealed to him there were parts of his writings which they were careful to ignore, for it was not all comfortable reading for capitalists and employers, of whom in many a passage Adam Smith evinced a lively suspicion. In one place he says that merchants and masters complain of the bad effects of high wages, but say nothing of the bad effects of high profits. In another place he writes : " People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices." Or yet, again : " The interest of the dealers in any particular branch of trade or manufacture is always in some respects different from, and even opposed to, that of the public. . . . The proposal of any new law or regulation of commerce which comes from this order of men ought always to be listened to with the greatest precaution, and ought never to be adopted until after having been long and carefully examined, not only with the most scrupulous but with the most suspicious attention."

The truth is that Adam Smith had too balanced a judgment and too rounded a genius to be the prophet of a party or of a class. And if appeal is ever made to him on matters of economic policy to-day allowance has always to be made for the vast changes that have taken place in conditions since he wrote. A revolution has been effected in government no less than in industry. Our modern Civil Service, with its comparative efficiency and its freedom from corruption, represents as great an advance upon the comparatively inefficient and often corrupt administration of the eighteenth century as does a modern factory upon the domestic industry of that age. Not even Adam Smith could

utter the final word upon such a subject as the limits of State action.

Individual Liberty. An increase in the economic freedom of the individual was at the time the most obvious and the most practicable measure of reform. That freedom was limited not only by ill-directed State interference, but also by the selfish action of privileged corporations, such as the East India Company, themselves in many cases created by the State. Monopoly limited the opportunities of producers and raised prices to consumers. Therefore Adam Smith attacked monopoly in all its forms in the interests both of consumers and of producers. Indeed, he was suspicious of most forms of combinations in the economic sphere, even when there was little trace of monopoly in them. He was thus led to disparage not only the privileged companies, but also most forms of joint-stock organization. Undoubtedly he pushed this fear of associated action too far, but his attitude was not unreasonable at the time, and some of his warnings as to the dangers of joint-stock management still have considerable value.

CHAPTER III

THOMAS ROBERT MALTHUS (1766-1834)

THE name of Malthus is identified with the theory of population. Desiring a wider foundation for his reputation, he wrote a considerable amount of general economics, but in this wider field he was over-shadowed by his friend Ricardo, who wielded the decisive influence in shaping the development of economic science in that generation. As Malthus led the comparatively uneventful life of a student, it is permissible to view his career mainly in relation to his central theory. Indeed, the man and the theory grew together; for the theory, in its first form the work of impetuous youth, continued to receive revision at the hands of its author throughout the rest of his life. The *Essay on Population* first appeared in 1798; radical changes were introduced in the edition of 1803, and further modifications were made in the four later editions which appeared in the author's life-time.

The Origin of the Malthusian Theory. The theory was Malthus's response to the ideas and facts of his own time. In its origin an answer to visionary French theories, it came to be more and more a warning of the dangerous implications of contemporary British facts. The eighteenth century was, to a considerable extent, an age of optimism; and at its latter end the conservative optimism of those who thought that little more remained to be accomplished was succeeded by the revolutionary optimism of those who thought that a new era of human perfection was at hand. The beginning of that era was seen in the French Revolution,

and French theories of regeneration were given an English dress by William Godwin, the communistic anarchist. These theories became a subject of discussion between Malthus and his father. The father, who had been a friend of Rousseau, was inclined to receive them sympathetically; the son, who had taken a mathematical degree at Cambridge, and who was then a country curate, combated them, first in argument and then in the *Essay on Population*, published anonymously in 1798. In this first edition it was an essay in substance as well as in name, brief, brilliant, pungent, and controversial, in which the author argued that the "principle of population" opposed an insuperable obstacle to Utopian schemes. This principle of population was that an unchecked population would increase faster than food resources, hence the growth of population must always be checked, but the checks necessarily involved misery and vice, so that man could never hope to attain an earthly paradise from which misery and vice were excluded.

Population and Food. The theory was grounded on the relationship between population and food. "Population," wrote Malthus, "when unchecked, increases in a geometrical ratio. Subsistence increases only in an arithmetical ratio." In the British colonies in America, where the abundance of natural resources and the purity of morals had greatly reduced the checks on population, numbers had doubled in twenty-five years. Malthus considered this a satisfactory proof that an unchecked population could go on doubling itself every twenty-five years, at a minimum rate of increase. On the other hand, he thought that he was making a maximum allowance if he reckoned that subsistence could increase every twenty-five years by an amount equal to the present (1798) production. Whilst from

a physiological point of view every increase in population renders easier a further increase, the same does not hold true of food, since the supply of land is limited. Hence an unchecked population would speedily outrun the food supply.

The mathematical statement of the relationship between population and food has received the criticism which it invites. The happy metaphor of a controversial pamphlet was a misleading formula for a scientific theory, but Malthus clung to it with an unfortunate persistence. He was forced later to recognize that there were cases in which the increase of subsistence might be in geometrical progression as well as that of population, and subsequent experience has made the exceptions so important as to overthrow the rule which Malthus formulated. The theory of population, however, is not overthrown with the mathematical rule with which it was originally bound up. It would now be based upon the principle of diminishing returns, to the development of which Malthus himself made later an important contribution, and which may quite well have influenced his thoughts on population, though he had not yet given a definite formulation to it.

The Meaning of the Theory. Malthus did not attempt to terrify his readers by the distant prospect of an overcrowded planet as the result of the superior power of population. His point is quite different and much more important. It is simply that the fantastic results arising from the disparity between the rate of increase of an unchecked population and the possible rate of increase of food reduce the supposition of an unchecked population to an absurdity. By this *reductio ad absurdum* he proves that the growth of population is always subject to checks. The most important part of his inquiry is, therefore, devoted to an examination

of the nature of the checks which restrain the superior power of population. He distinguishes between preventive and positive checks; the former operate by reducing the birth rate, the latter by increasing the death rate. The preventive check is restraint from marriage, which Malthus, in the first edition of his *Essay*, considered generally productive of vice and unhappiness. Vice also acts as a positive check, for private excesses and the other evils which men bring upon themselves, e.g. wars, increase the death rate. The other positive checks, privations and diseases imposed by Nature, all come under the head of misery. In its original form the theory thus made vice and misery the unescapable lot of human society. Even supposing that an ideal society could be instituted, increasing numbers would destroy leisure, re-introduce inequality, and lead to a renewed struggle for existence; while the retardation of the increase would mean the re-introduction of checks involving vice and misery.

Malthus's Second Thoughts. This striking pamphlet, strong in its narrowness and intensity, was a douche of cold water cast in the face of extravagant theorists by a brilliant amateur. But Malthus was not content to score an ephemeral success; he resolved to make himself an expert in the subject, and with the amateur there vanished a good deal of the controversialist. As he equipped himself by study and by foreign travel for the preparation of a new edition of the *Essay*, he became more and more interested in contemporary facts, less and less interested in contemporary Utopias. So the second edition, published in 1803, is in reality a new book rather than a new edition of the former pamphlet. The change involved loss as well as gain. He lost the hard brilliance of the controversialist and

the sparkle of the amateur. The work became a treatise, much longer and much duller than the original essay, for whose startling metaphors and images a drab array of sober facts now did duty. The gain lay in the fact that the *Essay* now became a work of first-class scientific importance. Other writers had discussed aspects of the population question, and in particular points Malthus had been anticipated by his predecessors, but he was the first to devote a book to the causes that affect the increase of numbers. In this book he accumulates evidence in support of his view that population is always subject to checks. He used the scanty statistics that were available at the time, but for the most part he was forced to rely upon facts observed by himself or recorded by travellers. He now tests his theories by an appeal to facts, employing the inductive method ; and from a survey of society at different stages of development he shows that checks to the growth of population are everywhere in operation.

The change, however, was not simply one of form and of method, for the substance of the theory also received an important modification. Malthus now realized that in his unregenerate controversialist zeal he had handled the preventive check too summarily. The assertion that vice and unhappiness were the usual consequences of celibacy was much too sweeping. So he now admits moral restraint as a new preventive check. By moral restraint he means celibacy for prudential reasons and without irregularities. Here is a check which involves neither misery nor vice. The harshness of the original dilemma is softened and the way opened for a qualified optimism. One point must not be left in doubt. The only prudential check which Malthus recognizes is the postponement of marriage. Any other form of birth control he regarded as immoral.

Malthus, then, is not a neo-Malthusian ; that development took place later and its sponsors were Francis Place, the Radical, and Robert Owen, the Socialist. It would have been indignantly repudiated by Malthus himself.

By the admission of this new check Malthus undoubtedly approached nearer to reality, and he did not now greatly care if he weakened the case which he had originally presented in opposition to Godwin. From the very beginning he had had the facts of contemporary England in his mind, and as his theory developed it became more and more a warning to his countrymen that if an increasing population was not bridled by moral restraint, it must be cut down by misery and vice.

A First Approximation. The chief merit of Malthus's work lies in the examination of the checks on population. His account of the causes which govern the growth of numbers must be regarded as a first approximation rather than as the final theory, which still to a great extent eludes investigators of a complicated and many-sided problem. Whereas Malthus was led by the circumstances of his time to consider numbers in relation to food supply, modern writers view numbers in relation to general productivity, increasing returns in industry counterbalancing to a greater or lesser extent diminishing returns in agriculture. The best number—or, in the jargon of the day, the *optimum* number—is that which yields the greatest production per head. Population is not always straining to break the leash and increase beyond the means of subsistence ; and some of Malthus's less cautious statements on this head are clearly wrong. There may indeed be under-population as well as over-population. Both conditions are, however, temporary, and they set in motion forces which tend, *in the long run*, to bring population back

to the best number. Undoubtedly, the modern theory is at many points an improvement upon that put forward by Malthus.

Malthus and the Population of England. Until the first Census was taken in 1801 the number of the people was a subject of dispute. Most people considered that every increase in population was to be welcomed as an addition to national strength, and the alarmists of the period contended that numbers were actually decreasing. The Census of 1801 and its successors, however, amply corroborated Malthus's view that the population was increasing at an unusually rapid rate. In the circumstances of the time England had still to rely on her own resources for the feeding of her people; and Malthus, living in the country, could not fail to see that, despite the great advance in agricultural methods, the necessary food was only being raised, at a higher real cost, by taking poorer land into cultivation. This fact, even before he himself and other contemporary economists formulated the principle of diminishing returns, provided the basis for his argument that the difficulty of procuring additional supplies of food formed the ultimate check to an expansion of population. He could not, of course, foresee the great transport developments of the nineteenth century through which grain would be brought to our ports from the four quarters of the globe; and actually, in his attitude to the Corn Laws, he showed, on political and social grounds, dislike to dependence on foreign supplies. This development, however, does not invalidate Malthus's position. His point always is that population is limited by the food actually available, and that the population of England is increasing too fast in proportion to the food actually available at the beginning of the nineteenth century. This apprehension

led him to attack many measures of contemporary policy, which he believed were promoting a reckless increase in numbers.

He recognized, indeed, that the sensational fall in the death rate, mainly as a result of medical progress, was contributing far more to the increase in population than the rise in the birth rate. But, obviously, since no one would desire to check this reduction in mortality, the birth rate was the point of attack for a man with such views as Malthus. His attitude towards social policy was misrepresented, and he himself vilified. He did not, as Cobbett suggested, want an Act of Parliament to prevent poor people from marrying young and having lots of children. Yet his social policy was undoubtedly drastic, and few would care to go all the way with him. In justice, therefore, to Malthus it must be allowed that his criticisms of social policy were based upon a sincere and reasoned conviction that only moral restraint could save the people from vice and misery. His object was to encourage moral restraint by building up individual character.

Attack on the Poor Law. He was thus led to attack a poor law which put a premium on marriage. From 1795 to 1834 the poor law was being administered in many rural parishes in such a way as to weaken the moral fibre of those whom it professed to help, and was pauperizing whole districts. The poor law was creating poverty; and poverty was as much the subject of Malthus's inquiry as wealth was of Adam Smith's.

Had he confined himself to a denunciation of the abuses of poor law administration his attitude would scarcely excite surprise, though recent writers consider that the influence of the children's allowances in encouraging the growth of population has been exaggerated. But Malthus went further, and denounced not

simply a bad poor law but any poor law at all. He considered that the admission of the legal right to relief alleviated temporary and individual distress at the cost of premanent and general suffering. The certainty of parish assistance encouraged men to marry, and so brought an increase in population without a corresponding increase in food. The spirit of independence was weakened, and with it moral restraint; so that vice and misery increased. As it would be impossible to meet the obligation if everyone endeavoured to exercise the legal right, there could be no moral duty to admit such a right. He, therefore, desired the complete abolition of the right in the case of children born after a specified date.

He recognized that, in practice, the poor law had not done all the mischief of which, in his opinion, it was capable; other restrictions, notably in the supply of cottages, had reduced the encouragement which it gave to marriage. His attitude represents the extreme, but honest, intellectual reaction of a benevolent man against the mistaken philanthropy of his age. "I feel persuaded," he wrote, "that if the poor laws had never existed in this country, though there might have been a few more instances of very severe distress, the aggregate mass of happiness among the common people would have been much greater than it is at present." Malthus, fortunately, was not an economic dictator; but his extreme view served a useful purpose in combating the errors of his time, and it is largely owing to his influence that there grew up a saner outlook on the poor law and on the evils of indiscriminate charity. The new poor law of 1834 was influenced by Malthusian ideas, though it did not carry out Malthus's programme; and it certainly brought to an end a vicious system, though it was not itself above criticism.

State Intervention. Strong as was his reliance upon individual character, it would be a mistake to suppose that Malthus was an out-and-out advocate of *laissez-faire*. It is true that he championed the principle, but he admits more exceptions to it than most of his contemporary fellow-economists were prepared to concede. He insists, as vehemently as did Adam Smith, that individual freedom must be supplemented by education. In a system of freedom of competition education must raise the intellectual and moral level of the competitors upon which everything depends. His attitude towards the Factory Acts illustrates the extent and the conditions of his belief in individual freedom. He was in sympathy with their aim; for he thought that many workpeople worked too hard for their health and happiness, and he was prepared to sacrifice the general wealth to the general happiness. In the case of children, he approved not only the aim but the method of Factory Acts. But he would not extend this approval of the method to proposals to regulate the hours of adult workers by legislative enactments, for such Acts would violate the principles of individual freedom and competition. The desired result must be secured by the workpeople themselves resolving simultaneously to work fewer hours in the day. This was not a very practicable suggestion at a time when trade unionism had hardly yet found its feet; but it illustrates an interesting point of difference between Malthus and Adam Smith. To the latter associations suggested monopoly, which he heartily disliked; to the former the action of associated individuals often appeared a means of attaining objects at which State action could not properly aim. Moreover, in certain cases, he admitted the efficacy of State action itself, e.g. in education, in the grant of medical aid to the poor, in assisting

emigration, and even in giving money relief to men with large families. By a very notable exception, which separates him from his fellow-economists, he considered that the State might usefully restrict foreign trade when, as he thought sometimes occurred, it caused more harm to the public than good to the traders.

The Tortoise and the Hare. He held that the condition of the working classes—and this came to be his main concern—could be improved only by increasing the proportion borne by the quantity of provisions to the number of consumers. But efforts directed solely to increasing the quantity of provisions would never succeed, because numbers would increase faster. “It would appear to be setting the tortoise to catch the hare.” We should, therefore, endeavour to proportion the population to the food, while continuing our efforts to increase the latter. “If we could persuade the hare to go to sleep, the tortoise may have some chance of overtaking her.”

He realized that “subsistence” was a psychological conception, rather than a physical quantity of necessities, and that there was a level, a standard of wretchedness, below which people would not marry and multiply. This level he desired to raise as high as possible, for a rising standard of life meant a strengthening of moral restraint and an increase of happiness. In this way Malthus’s theory finds room for hope for social betterment; and, in fact, the nineteenth century saw an increasing, but not unchecked, population enjoying a rising standard of comfort which did put a brake upon the rate of increase. It must be confessed that with Malthus himself hope was almost swallowed up in fear. While he pleaded for moral restraint, he feared that vice and misery would continue to play the greater part in keeping down population to the level of

subsistence. His final attitude is one of general, although not of unrelieved, pessimism. For his own limited, and rather negative, social philosophy was too blunt a weapon for a successful attack upon the problem which oppressed him, of giving to the lowest orders in society, amongst whom, in their actual state, as he himself saw, competition was a mere animal struggle for existence, that determination to maintain and improve their standard of life which he valued as the surest means of increasing moral restraint and improving their lot.

The Neglect of Malthus. As an economist, Malthus deserved a better fate. His popular disrepute arose from a misunderstanding of the man and of his work on the population question; and even his scientific reputation suffered from the over-emphasis of this side of his work and the undue neglect of his other contributions to the subject. For he was a much greater economist than was commonly recognized, and he might have exercised a salutary influence over the succeeding generation. Unfortunately their whole-hearted allegiance to a still greater economist, Ricardo, blinded them to many of the merits of Malthus's work and method. They accepted his theory of population, but otherwise dismissed him as of little account. Unfortunately there was not a Malthusian as well as a Ricardian school. Ricardo was really the founder of a new dynasty at a time when two consuls would have done better work than a monarch; since both were required to take up the succession of Adam Smith. Malthus, indeed, was, in many respects, nearer to Adam Smith than was Ricardo; and the neglect of those inductive and historical studies which he had carried on robbed the generation that followed of a good deal both of the spirit and of the method of Adam Smith.

This was the price that was paid for the great development of deductive economics, and had Malthus received a more adequate recognition the price need never have been paid.

The most important secondary authority on the work of Malthus is *Malthus and His Work* (J. Bonar). Marshall's comments in *Principles of Economics*, Book IV, Chapter IV, are illuminating, and *Population* (H. Wright) is also useful.

CHAPTER IV

DAVID RICARDO (1772-1823)

FOR more than half a century the work of David Ricardo exercised a supreme influence upon English economic thought. Then, from many quarters, his dominance was assailed; and, as he did not lack able and vigorous champions, his name became the battle-cry among warring economic sects. Undue disparagement on the one side was answered on the other by an excessive generosity of interpretation which read modern developments of theory between the lines which the master actually wrote. The disputants agreed, if in nothing else, at least in recognizing the supreme importance, for good or for ill, of Ricardo's work. Fortunately the controversy has now died down, and it is possible to do justice to Ricardo without making him an economic Pope or anti-Pope.

Ricardo dearly loved a paradox, but better than any of the examples which he gives in his writings is the paradox provided by his own career. For to be practical he was forced to be abstract. Few economists of the first rank have given more of their attention to questions of the day than this business man turned economist; but he attacked these problems with the weapon of abstract theory, and, in forging this weapon, he created pure or abstract political economy. His enduring influence upon economic science has been the development of a method even more than the formulation of a body of doctrine.

Business Career and Intellectual Development. The forces that moulded Ricardo's intellectual development explain this central paradox of his career. As a Jew,

his racial inheritance combined powers of abstract reasoning with aptitude for practical affairs, and especially for finance. Each of these talents found a sphere suitable for its development. His practical abilities were first exercised on the Stock Exchange, where, from an early age, he had the opportunity, not only of amassing that private fortune which was his primary aim, but also of observing from a central position the economic problems of an age of transition and of war. He showed his independence by forfeiting an assured business future by marrying a Christian in opposition to his father's wishes. For a few years he had to struggle to maintain himself, but at the early age of twenty-six he had attained to an established position, and though he continued in business, he was now able to devote an increasing amount of time to intellectual pursuits and to the development of the other side of his nature. An early interest in the physical sciences, chemistry and geology, revived; and his interest in the wider aspects of business problems was converted by the perusal of the *Wealth of Nations* into a definite impulse towards economic studies. This interest in economic theory soon brought him into contact with the economists of his day, and especially important was the influence of James Mill. In philosophy James Mill was a disciple of Jeremy Bentham, the great Utilitarian, and Ricardo soon came under this influence also. The Benthamites, in politics radical individualists, sought to make an invincibly abstract method in philosophy subserve concrete proposals for reform in law and in politics. Since they had received a better formal education than Ricardo, he regarded them as his masters in philosophy, and their influence encouraged his own original inclination to use abstract speculation in furtherance of practical objects.

The Economic Questions of the Day. Finally, the economic questions of the day were such as to invite, and almost to require, an abstract approach. The first of these questions to which Ricardo devoted his attention was the general rise in prices. As usual, various explanations of this rise found favour with the public. It was obviously impossible, in such a case, to found any rational explanation upon an inspection of instances; the only fruitful course was to frame an abstract theory of the value of money. Ricardo naturally adopted this course, when, in his first economic writings in 1809, he joined those who pointed to the excessive issue of inconvertible paper money as the true cause of the rise in prices. His standing as a business man, prominently engaged in financing the war, and the clearness with which he expounded the connection between the quantity of paper money issued and its depreciation in value, made his intervention contribute powerfully to the appointment of the Bullion Committee, whose report in 1810 supported his view. Ten years were to elapse before effect was given to that report and a return made to gold payments, for it was not practical politics in war time; but in the currency controversies of these years Ricardo came to play a leading part. He made a noteworthy contribution to monetary theory, not only confirming and co-ordinating the theories of his predecessors, but making additions of his own, especially in the theory of international prices. In many ways the monetary discussions of Napoleonic times anticipate those of our own day; and in some cases theories and devices that have recently been put forward as novel can be traced back to Ricardo.

The Corn Laws provided the second great practical question. Extensions of cultivation and the rapid spread of improved agricultural methods, in response

to the stimulus of high war-time prices and the increasing demand for food of an expanding population, had, by the closing years of the war, brought bountiful harvests which caused a break in prices. The whole question of future agricultural policy was thus raised, and a controversy was waged between the champions of protection and the advocates of free imports. On both sides abstract reasoning was employed; and in the course of the controversy the theory of economic rent as a producer's surplus, arising from differences in the fertility of land and accruing to the landlord, was developed almost simultaneously by Malthus, West, and Ricardo. The latter cannot claim priority, though he gave to the theory the form in which, as the law of rent, it found a permanent place in English political economy. It was, moreover, in a pamphlet published in 1815 combating Malthus's protectionism, that Ricardo gave the first indication of his own most characteristic contributions to economic science.

The Principles of Political Economy and Taxation. He was not a ready writer, but his friends, and notably James Mill, induced him to embark upon a full-dress economic treatise, in which he would expand and defend the views which he had expressed in his pamphlet. This, Ricardo's chief economic work, appeared in 1817 under the title of *The Principles of Political Economy and Taxation*. Modifications were subsequently introduced into the second (1819) and third (1821) editions; and we know from Ricardo's letters that his economic thought was developing right down to his sudden and premature death in 1823. Whilst allowance must be made for this fact in any final estimate of Ricardo, his influence on the general public was due to the book which he published, and not to the private letters which he never intended for publication.

It could never be a popular book. Ricardo had a defective literary education, and his work lacks that artistic form and literary merit once demanded in scientific writings. Judged even by that lower standard which prevails to-day in works of this character, its defects in respect both of general plan and of clearness of expression are glaring. The strength of his thought was too great for his meagre literary equipment to succeed in the difficult task of giving clarity to its expression. In his case it is not true that what was difficult to write is easy to read. For this reason he has remained to a great extent an economist's economist, owing his general influence largely to the diffusion of his thought by more fluent but less original men. Yet, when all has been said, the work is one of the few indubitably great economic treatises; and those who care to exercise their heads find its concentrated thought both bracing and exhilarating.

Ricardo in Parliament. In 1819 Ricardo, who had meanwhile retired from business and bought an estate in the country, entered Parliament. In general politics he was a radical, who laid a special stress on vote by ballot; and as a Member of Parliament he championed those economic causes which he had sought to support by abstract reasoning in his writings. He sympathized with the early phases of Robert Owen's work as a factory reformer, and was prepared to give a hearing to his more ambitious schemes, though he ultimately dismissed them as "inconsistent with the principles of political economy," an unfortunate phrasing of his condemnation, whose use became common and more objectionable by disciples who substituted "laws" for "principles." In Parliament he was also an advocate, though not the first, of a capital levy as a means of paying off the National Debt and so reducing the annual

burden of taxation. In his view, almost any sacrifice would not be too great to get rid of "a millstone round the exertion and industry of the country."

No one did more than Ricardo to make self-interest the basis of economic reasoning, but his life, more than his words, shows that this was a part of his abstraction, a device of thought, not a counsel of action nor even an unqualified verdict on business morality. Instances of his generosity and public spirit as a man of fortune and a landlord could be multiplied, but the selection of one from his purely business career really clinches the matter. Upon one occasion he deliberately sacrificed his private interest as a loan contractor in order to give to the Chancellor of the Exchequer advice on the management of the loan, designed to secure, by an improvement of practice, public economy at the expense of himself and his fellows. Ricardo himself was much more than the economic man of his abstraction.

Ricardo wielded a more direct influence upon contemporary men of affairs than usually falls to the lot of the economist. And yet, we must end by emphasizing the paradox which we sought in the beginning to explain. The business man was far more abstract in his treatment of the subject than the academic economist. Instead of drawing on his own experience for illustrations of the principles which he expounded, he preferred to invent hypothetical cases. Great as is our debt to Ricardo, it would be still greater had he shared with us that intimate knowledge of the Stock Exchange and the money market which he possessed. Although his procedure can be understood and defended, it seems almost to rob us of what we would fain consider our due from a business man turned economist.

"The Principles of Political Economy and Taxation."
In this work Ricardo gives the first place to questions

of distribution. These topics had been comparatively neglected by Adam Smith; his attention appears to have been drawn to them by his French contemporaries, but they receive only a half-hearted and unsatisfactory treatment in his volumes. A fuller investigation was now required, for the chief economic issue of Ricardo's day involved questions of distribution. The currency problem was whether monetary policy should favour debtor or creditor; and it is hardly necessary to remind the present generation how a rising or a falling price level affects the real income of every class in society. On one side at least the Corn Laws raised a question of distribution; were the interests of the agricultural or of the manufacturing population to prevail? Again, questions of taxation, to which the exigencies of war finance had given a new importance, involved a distribution of burdens and a redistribution of income between taxpayers and fund-holders. It was the urgency of these practical questions that gave to distribution its leading place in Ricardo's work.

The Theory of Value. The theory of value was, however, the necessary foundation for a study of distribution; and Ricardo was dissatisfied with the position in which this theory had been left by Adam Smith. After finding the real measure of value in a primitive society in the quantity of labour required to produce different commodities, Adam Smith had entirely rejected this "embodied labour" as a real measure of value in advanced societies in which capital co-operated with labour. On logical grounds Ricardo disliked this procedure; he thought that one and the same measure ought to be applicable, with modifications, both to primitive and advanced societies. It is interesting, however, to observe how practical considerations influenced the development of one of the most abstract

of economic doctrines. In the Corn Law controversy Ricardo had adopted, in opposition to Malthus, the position that a higher general level of wages would not alter the relative value of commodities, and he found in his theory of value a justification for this position. But the theory itself was far more important than this immediate application of it.

Returning to the principle that Adam Smith had rejected, Ricardo found the real measure of the value of a commodity in the quantity of labour that had been required to produce it, and which it might, therefore, be said to embody. From the outset he was forced to admit some qualifications to this "embodied labour" theory of value, and these qualifications became more and more important in the successive editions of his book. Capital could be viewed as the product of past labour, but a complication was introduced by the fact that different periods of time elapsed before different kinds of capital brought their return. For this complication Ricardo finally made allowance in his first chapter, but in the remainder of his work he continued to give prominence to "embodied labour" to the neglect of that element of time which his correspondence shows he was inclined to regard as of almost equal importance. But it was left for his followers to claim for this theory of value a finality which Ricardo himself did not believe it to possess, for he was still wrestling with the problem when he died.

The "scientific" socialists later based the theory of surplus value on a labour theory of value which they wrongly, but not altogether unreasonably, attributed to Ricardo. On the other hand, Marshall, by interpreting Ricardo "more generously than he himself interpreted Adam Smith," claimed for him that, taking utility for granted, he analysed the less obvious

influence of cost of production into its more important constituent elements, including quantity and quality of labour devoted both to direct production and to the production of implements, and the time spent on production, and that he corrected an anticipation of Marx's misunderstanding. In truth, the theory is incomplete rather than erroneous. It is a cost of production rather than a labour theory of value; but Ricardo invited misunderstanding by continuing to speak of it as the latter. It is, of course, a theory of "natural," "normal," or long-period value.

Problems of Distribution. In his application of this theory of value to the problems of distribution, Ricardo was dominated by the Malthusian theory of population. In the progress of society an increasing demand for food leads to an extension of the margin of cultivation, and so to a rise in the price of food and in rent; wages, therefore, rise in money value at the expense of profits; in consequence of the fall in profits capital does not increase as fast as population, and this relative fall in the demand for labour results in a decline in real wages. Wages tend to the level of subsistence, for if they rise above that level the growth of population pulls them down again, and if they fall below it the check to population raises them again. The level of subsistence is, therefore, the "natural" rate of wages.

The Iron Law of Wages. This theory of distribution reflects Malthusian pessimism. Socialist writers drew the conclusion that the Ricardian law of wages was an "iron" or "brazen" law. Yet here, again, for the careful reader there are many qualifications. In an advancing society the market rate of wages may be above the "natural" rate for an indefinite period; for improvements of all sorts counteract the law of diminishing returns. Furthermore, the "subsistence" of

the labourer was not a fixed minimum of necessities, but an amount of necessities and comforts which varied from place to place and from time to time. "It essentially depends upon the habits and customs of the people," wrote Ricardo. He thought it impossible to effect any permanent improvement in the condition of the poor, unless they could be kept from early and improvident marriages; but he also considered it desirable that the labouring classes should have a taste for comforts and enjoyments, and should be stimulated by all legal means in their exertions to procure them. "There cannot be a better security against a superabundant population."

Foreign Trade and Public Finance. As prominence has been given to those parts of his exposition which have raised most difficulty, his great and unchallenged achievement in the theory of foreign trade can only be briefly indicated. In this department Adam Smith's work had been mainly destructive; he had exposed the fallacies upon which the mercantilist system rested, and had thus created a presumption in favour of free trade; but he had done little to develop a constructive theory of international trade. That theory was now provided by Ricardo in the doctrine of comparative costs which is still the basis of any theoretical exposition of the subject. It is also only possible to note in passing how the prominence of questions of public finance is reflected in the attention given by Ricardo to taxation, as indicated in his title; and to say that on the basis of his theory of distribution he constructed a theory of the incidence of taxation.

The Deductive Method. As has been already indicated, his use of the abstract deductive method constitutes perhaps his greatest achievement. His contributions to doctrine rest upon his use of this method,

and his method was as influential as his doctrine. In his hands political economy lost a good deal of the breadth which had characterized *The Wealth of Nations*. Compensation for this narrowing was found in a growing precision. Abstraction meant simplification, and the result was the erection by Ricardo of a "harmonious, consistent, and beautiful system," to quote the words of an enthusiastic disciple. A system of thought deserves all these epithets if its conclusions follow logically from its assumptions. If, however, it is to be more than a merely intellectual construction, and to possess validity in the market-place as well as in the study, it must satisfy the further condition that its assumptions themselves are a close approximation to fact. Therefore no abstract science provides a set of principles immediately applicable to practical questions; nor can any course of action be "inconsistent with the principles" of an abstract science. In passing from abstract science to practice, a thinker must always consider how close is the approximation between the assumptions of the science and the facts of the case, and how far the conclusions of the science can be verified by an appeal to facts.

How, then, do the Ricardian economics stand this test? Not unnaturally they stand it best in the case of those practical issues which Ricardo himself had in mind. His assumptions of self-interest and free competition were closer approximations to the facts of his day in the money market and in the wholesale international trade in commodities than they were in other times or in other spheres. They were too narrow and too rigid to make his science a safe guide to practice in every sphere of economic life, and so the weapon which Ricardo had forged for specific practical purposes did not serve equally well when turned by his followers

to other uses. Its great work was accomplished in the spheres of currency and foreign trade, and its use in labour questions was less beneficial, and, in the hands of some followers, mischievous.

Ricardo exhibits both the strength and the weakness of the deductive method. Its strength is seen in the great advance which he made in the theories of value and of international trade. Its weakness lies in its limitation even when properly used and in its liability to mislead when the nature of its results is imperfectly understood. At best, the economist who relies solely upon deduction is wilfully neglecting half the weapons in his armoury. In the case of the individual with outstanding gifts of deductive reasoning, this procedure is justified ; for all are not similarly endowed ; and in the study of economics, as in other human activities, there must be division of labour. But the science as a whole cannot safely rely upon a single method. Moreover, deductive reasoning is insecure until its results have been verified by an appeal to experience. Ricardo could, consciously or sub-consciously, use his own experience to check his results, though if he did so he does not take his readers into his confidence. But his followers too often shrank from the task of verification, which was all the more necessary since they were applying the Ricardian principles to spheres in which the Ricardian assumptions were very imperfectly fulfilled. The inevitable result of this mistaken procedure was to produce in course of time a reaction against the abuse of deduction which went the length of disparaging the method itself.

The most helpful work on the general thought of Ricardo is *David Ricardo* (J. H. Hollander), to which the author has been specially indebted.

CHAPTER V

JOHN STUART MILL (1806-1873)

IN the whole history of nineteenth century thought there is no more interesting or perplexing figure than John Stuart Mill. As an expositor he had unrivalled gifts, which made his *Principles of Political Economy* the leading treatise on the subject for more than a generation, and which have won for it a permanent place in economic literature. He was, however, much more than a ready and attractive writer, fitted to interpret the thought of original minds to a wider public than they themselves could reach; he had an active and independent intellectual life of his own, and a social conscience of rare sensibility. These led him to handle economic questions in a profoundly interesting way, but they did not enable him to make any noteworthy contribution to the development of economic doctrine. Accordingly the great teacher of classical doctrines is not himself reckoned "classical" by Marshall, because the science derives from him no "architectonic" idea.

The Influence of James Mill. The explanation of the peculiar relation in which Mill stands to the classical school is largely found in his own intellectual history. The son of James Mill was destined from birth to wear the Utilitarian purple, and the father sought to fashion him in his own intellectual image, so that the succession should be secured. Hence a critic once complained that John Mill was a "made" or manufactured man. In his *Autobiography*, the son has recorded for us the details of an education almost unprecedented in the demands which were made upon the pupil, and in the

intensity of purpose which inspired the teacher. James Mill, the friend of Bentham and of Ricardo, was a man of strong intellect and domineering character, whose Utilitarianism, taking the place of his discarded religious creed, was cherished with extreme sectarian intolerance. The father failed in his purpose of securing for himself an intellectual reincarnation in his son ; but he had impressed upon the son a philosophy which he might modify but could never wholly abandon. The reaction, when it came, was even more a reaction against the temper than against the tenets of the father. John Mill came to see the intolerance of the sect, to which in his early manhood he had been so proud to belong, and to dread narrowness as the worst of intellectual vices. He was now inclined to believe that truth is oftenest found in the mean between two extreme opinions. He therefore opened his mind to many of the intellectual and aesthetic influences of his age ; and ever sought to find a just mean between opposing theories. The receptivity of the son is in striking contrast with the narrowness of the father ; and, though more attractive, it was hardly less dangerous. For if it is the strength and the glory of John Stuart Mill, as a student, that he never shut his mind to new ideas, and that he was ever pressing forward to a wider vision of truth, it is his weakness, as a teacher, that he sometimes speaks with an uncertain voice simply because in widening his range he has blurred his vision. The tenacity with which he clung to his old ideas is as remarkable as the readiness with which he welcomed new ones ; and, as he could not always find a satisfactory compromise, the result is sometimes a confusion and an inconsistency which the dialectical skill of a masterly logician imperfectly conceals. His peculiar position in the history of nineteenth century thought in general,

and of political economy in particular, is due to this attempt to put new wine into old bottles. He would be disavowed by his intellectual ancestors, but he did not himself found a new dynasty.

It is not possible to do justice in brief compass to so many-sided a man. His external career as an official at the India House, or later as a Radical Member of Parliament, as well as much of his intellectual labours, must necessarily be ignored; and even the consideration of his economics and of his social philosophy must be made to centre round their most interesting feature, the combination of the economic principles of Ricardo with a wide vision of social reform.

The Expositor of Ricardo. Mill never seriously questioned the truth of the economic principles which he had learned from his father and from Ricardo; to no part of his early training did he remain more faithful. So far as the main content of economic doctrine is concerned, he never pushed his independent studies very far because he remained so well satisfied with the teaching of his masters. Hence his name is not associated with any great economic law or principle. In the main, therefore, so far as doctrine is concerned, he provides in his *Principles* a "readable Ricardo." In itself this was an achievement of which any man might feel legitimately proud. To give so polished a literary expression to the work of so original a thinker, and so crabbed a writer, was in itself to render an important service to the dissemination, if not to the discovery, of economic truth; and even now, though superseded, his work remains a mine of felicitous phrases and happy illustrations. For the excellence of its exposition and its literary artistry, though not for its scientific importance, it is the only succeeding work that can challenge comparison with *The Wealth of Nations*.

The Application of Economic Principles to Social Problems. Mill, indeed, took that incomparable work for his model. In his preface he makes it clear that he aims at doing for his generation what Adam Smith had done for a previous one; and he especially commends his predecessor for the close association of general principles with their application, and for his recognition that in the application of principles wider considerations than the purely economic must always be taken into account. Mill himself gave much more independent thought to the application of economic principles than to their discovery. He had already prepared the way for such a treatment by considering in his *System of Logic* the place of political economy among the social sciences, the appropriate method for its study, and the validity of its results. From Comte he had derived the conception of sociology or a general social science, co-ordinating the provisional conclusions of the separate social sciences, though in many respects his own scheme and procedure differed from that of the French philosopher. To Mrs. Taylor, who later became his wife, he himself attributed a great, and many have thought an exaggerated, influence upon his work; in particular, he tells us that to her was due, in the case of the *Principles*, "that general tone by which it is distinguished from all previous expositions of political economy that had any pretension to being scientific."

The general character of the book is best indicated by its full title, which is, *Principles of Political Economy with Some of their Applications to Social Philosophy*, and by the following passage from the *Autobiography*—

It was, from the first, continually cited and referred to as an authority, because it was not a book merely of abstract science, but also of application, and treated political economy not as a thing by itself, but as a fragment of a greater whole; a branch of social philosophy, so interlinked with all the other branches,

that its conclusions, even in its own peculiar province, are only true conditionally, subject to interference and counteraction from causes not directly within its scope ; while to the character of a practical guide it has no pretension, apart from other classes of consideration. Political economy in truth has never pretended to give advice to mankind with no lights but its own ; though people who know nothing but political economy (and therefore know that ill) have taken upon themselves to advise, and could only do so by such lights as they had.

The Dangers of Abstraction. Hitherto progress in economic science had proceeded mainly from a narrowing of the field of study. The gain from abstraction had been immense ; but there was danger that the extent of the abstraction should be overlooked, if not by the scientific economists themselves, at least by those who were now compiling popular manuals of the subject suited to the intelligence of the youngest readers. There was the danger that in some quarters political economy should be regarded as furnishing a set of simple laws capable of immediate and rigid application to practical questions.

One of Mill's great services is that he made clear and explicit the extent of the abstraction, and the nature of the assumptions upon which scientific economics then rested. In the heyday of economic dogmatism, he produced an exposition of classical doctrine in which its essential but limited use as a guide to practice was displayed by one of the most logical brains of the century. Mill recognized that human motives were not so simple as scientific economics assumed, and that competition was modified by custom ; these facts did not invalidate the procedure of the Ricardian political economy, but they pointed to allowances which must be made when dealing with practical questions. He remained a Ricardian, but he refused to be a dogmatist. He rightly saw that the time had come for a widening of the scope of economics ; but there is

point in Bagehot's criticism that he widened it either too much or not enough. His edifice of thought was top-heavy; but while the old school deprecated the wide superstructure of social philosophy, a younger generation was more critical of the narrow foundation supplied by the old political economy.

Yet, as a social philosopher, he accomplished the remarkable feat of wresting an optimistic conclusion from economic theories which had filled Malthus and Ricardo with gloom.

Private Character. His private character was so attractive that Gladstone called him the "saint of rationalism." His *Autobiography* reveals a personality of singular modesty and charm. The character of his father is there drawn in as favourable a light as possible and his own debt to his teaching acknowledged, while the later revolt is sketched with a delicacy that shrinks from any word of censure. Mill was always ready to acknowledge his debt to others, and in this volume he presents his father and his wife as the dominant influences upon his intellectual development. There is one curious omission; regarding his mother he is silent. Yet the reason for this is clear, for his friendship and, later, marriage with Mrs. Taylor had led to a family estrangement, and Mill's honesty and charity made him prefer silence to the open display of secret wounds. His short political career exhibits the same delicacy in a form too extreme for success as a practical politician. Standing as a Radical candidate, he refused to canvass; and his extreme independence made his Parliamentary career a brief one. But both in private and in public life he inspired affectionate respect in those who knew him.

The Social Optimism of John Stuart Mill. In one of his letters Mill confessed that he regarded "the purely

abstract investigations of political economy (beyond those elementary ones which are necessary for the correction of mischievous prejudices) as of very minor importance compared with the great practical questions which the progress of democracy and the spread of socialist opinions are pressing on." Unlike the earlier philosophic Radicals, he found the real obstacles to human progress not so much in imperfect political institutions as in stubborn economic facts. Acceptance of the economic principles of Malthus and of Ricardo rendered it impossible for Mill to adopt an easy optimism. Diminishing returns and the superior power of population haunted his imagination. He saw in the niggardliness of nature, not the injustice of man, the cause of the penalty attached to over-population. It has been urged that he exaggerated the danger and that over-population was an obsession with him; at any rate, he never ran away from the difficulty.

It is but rarely that improvements in the condition of the labouring classes do anything more than give a temporary margin, speedily filled up by an increase of their numbers. The use they commonly choose to make of any advantageous change in their circumstances, is to take it out in the form which, by augmenting the population, deprives the succeeding generation of the benefit. Unless, either by their improvement in intellectual and moral culture, or at least by raising their habitual standard of comfortable living, they can be taught to make a better use of favourable circumstances, nothing permanent can be done for them; the most promising schemes end only in having a more numerous but not a happier people.

For the greater part of his life Mill also adhered to a theory of wages which made their general level depend exclusively on the proportion borne by a wages fund, which was a part of capital, to the number of labourers. He did not, however, believe that capital could increase indefinitely. As openings for investment filled up there was a tendency for profits to fall to a minimum, and

if this minimum were ever reached further accumulation would for the time cease. Mill was, of course, aware that all these tendencies were subject to counteraction, and he submitted the counteracting forces to a careful examination. Yet these counteracting causes, however long they might postpone, could not permanently avert the coming of a stationary state, in which industrial progress and the further accumulation of capital had ceased, and the expansion of population had in consequence been stayed. Far from minimizing the effects of the economic principles which he accepted, Mill pushed them to their logical extreme.

The Laws of Political Economy. How, then, did he find room for anything that can be called social optimism? He did so mainly by making "the proper distinction between the laws of the production of wealth, which are real laws of nature, dependent on the properties of objects, and the modes of its distribution, which, subject to certain conditions, depend on human will." This distinction has been rejected by some later economists, and Mill certainly lays himself open to the criticism that the distinction is made too rigidly one between production and distribution. In his main contention he is undoubtedly right; some economic principles are based upon ever-present physical facts which man can do little to modify; others are based upon psychological facts which are neither permanent nor universal, and which it may be the business of the social reformer to alter. As a recent writer puts it, economic forces work within a legal framework; and law and opinion act and react upon one another. In making distribution largely a matter of human will, Mill does not mean that a government could play ducks and drakes with a system of distribution which was well adapted to the social psychology of its subjects.

But change was possible, and in many respects Mill thought it both desirable and practicable.

Socialist Sympathies. The misery which surrounded him appalled a social conscience that would never suffer him to be a comfortable theorist. In 1848 he thought it questionable if all the mechanical inventions yet made had lightened the day's toil of any human being. He sympathized with many of the socialist aspirations of the day, and made a considerable approach towards their ideals. He even wrote that if the choice had to be made between communism and the existing (1852) state of society, with all its sufferings and injustices, "all the difficulties, great or small, in communism, would be but as dust in the balance." He preferred, however, to compare with communism, private property, not as it was, but as it might be; and he was prepared to welcome extensive changes in it. He would diminish inequality and the power of inherited wealth by limiting the amount which anyone could receive by gift or bequest. He would clip the wings of the landlord, to whom the classical economists assigned the most favourable position in society since diminishing returns enriched him by increasing rents while they impoverished others, by the creation of peasant owners, a solution which he especially favoured in Ireland, or by the taxation of the unearned increment from land. He thought it quite possible that the contemporary socialist ideal of co-operative workshops, either in conjunction with co-partnership between employers and employed, or even alone, would take the place of the existing wage system.

Individualism. The approach towards socialism was great; but it must not be exaggerated, for in coming under the influence of the ideas of Saint-Simon and other socialists, Mill did not abandon his earlier

individualism. Here, as elsewhere, he sought to combine the new with the old, and to build socialism upon individualism. Though he strongly repudiated the suggestion that in advancing objections to their schemes he had refuted the socialists, he himself put his trust in individual effort and improvement, and he did not share their uncritical optimism as to human nature. In many respects his attitude towards his fellow-men was censorious rather than flattering. He considered the socialists wrong in believing that human nature was already fitted to respond to the higher appeal of a reorganized society, or that a mere change of institutions would produce a sudden change of heart. On the other hand, he had emancipated himself from the narrow Utilitarianism of Bentham and of his father, which made general happiness issue from individual selfishness, and derided the appeal to a higher element in human nature whose existence it denied.

John Mill did not under-estimate human selfishness, but he refused to regard it as a fixed quantity; for human nature was susceptible to a higher appeal and capable of gradual improvement. By education, through participation in political and industrial activities even more than through books, the moral and intellectual improvement of the individual could be effected. Round the liberty of the individual Mill drew a ring fence, which government and society must never invade. Relying upon individual effort, he could never sympathize with socialist declamations against competition: "They forget that wherever competition is not, monopoly is; and that monopoly in all its forms, is the taxation of the industrious for the support of indolence, if not of plunder." If competition has its evils, it prevents greater ones. It "may not be the best conceivable stimulus, but it is at present a necessary

one, and no one can foresee the time when it will not be indispensable to progress."

State Action. Yet the State had a part to play in the improvement of its citizens. It was impossible, Mill recognized, to fix on general principles any precise limits to its action. A number of considerations established a presumption in favour of *laissez-faire*; but in particular cases this presumption could be overthrown, and Mill himself admitted a number of interesting exceptions in favour of education, factory legislation for the protection of children, the enforcement of a limitation of hours generally desired in a trade but subject to individual infringement, the control of monopolies, colonization, protection to infant industries. Dread of over-population even led Mill, the apostle of individual liberty, to approve State intervention to prevent the marriage of the indigent.

The Stationary State. He had a firm belief in the gradual improvement of the individual, and so the stationary state, towards which society was progressing, held out to him an alluring prospect. It would be exempt from "the trampling, crushing, elbowing and treading on each others' heels, which form the existing type of social life." It would not be a state of unprogressive stagnation; minds ceasing to be "engrossed in the art of getting on" would be devoted to improving "the art of living." Even the industrial arts might be successfully cultivated, "with this sole difference, that instead of serving no purpose but the increase of wealth, industrial improvements would produce their legitimate effect, that of abridging labour." In his *Utilitarianism* he looks forward to the conquest both of poverty and of disease, for "most of the great positive evils of the world are in themselves removable."

The man, it has been well said, was greater than

his creed. He showed that the old political economy did not necessarily involve a pessimistic social philosophy, and that the classical doctrines did not refute socialism. But his creed had little influence ; for it was a peculiar mixture of diverse elements, many of which have themselves since been discredited.

The Revision of Classical Doctrines. Perhaps the chief influence of Mill as an economist was to postpone the revision of classical doctrines. He explained and justified the procedure of deductive political economy, and he was himself careful in his application of its results to practical affairs. Yet while he recognized that the assumptions made by the abstract science did not wholly square with the facts, he was content to attempt the necessary adjustment in applying the principles to practical issues. He considered that the principles of abstract political economy should be combined with those drawn from the other social sciences, but he did not attempt to widen the science of economics itself. He failed to appreciate the importance of the work that was being done by the historical school of economists in Germany. As an economist, therefore, he belongs to the old school rather than to the new.

An interesting general estimate of Mill's social philosophy will be found in *Six Radical Thinkers* (J. MacCunn).

CHAPTER VI

A TRANSITIONAL GROUP

AFTER the death of John Stuart Mill it was long before any English economist won for himself a secure place as a leader among his fellows. Such a position was ultimately accorded to Alfred Marshall. Yet the period between the death of Mill and the exhibition and recognition of Marshall's full powers is far from being a barren one, either in great names or in important developments. Indeed Marshall, in his inaugural lecture at Cambridge in 1885, could say that in 1873, "England possessed perhaps the ablest set of economists that there has ever been in a country at one time. But one after another there have been taken from us Mill, Cairnes, Bagehot, Cliffe Leslie, Jevons, Newmarch, and Fawcett. And, not content with these, death has stricken down also one of the noblest of the rising generation, Arnold Toynbee." Apart from Mill, whose work has already been considered, and Newmarch, whose labours were mainly statistical, these men were all greater than the work which they actually produced. Their lives were either broken by physical disability or prematurely cut short. After years of suffering Cairnes died at the age of 52. Bagehot's career came to an end at 51. Cliffe Leslie died in the middle fifties, after being frequently laid aside by severe bouts of illness. Jevons was drowned at the age of 46. Fawcett, blinded at the age of 25, courageously overcame his difficulties, and pursued an active political career until his death at the age of 51. Finally, Arnold Toynbee, never robust and often ailing, died at 30.

This melancholy record makes one wonder not why these men achieved less than their abilities promised, but how they achieved as much as they did.

These difficulties were enhanced by the position in which they found the old political economy. Formerly it had been regarded by the general public with an excessive respect as a guide to practice; now its doctrines had been discredited rather than disproved, and there was a growing feeling that it was a subject only for experts which the plain man could disregard, taking refuge in his favourite fallacy that a thing might be true in theory and false in practice. Political economy, so long the leading counsel for the prosecution, was now itself under suspicion, if it did not actually stand in the dock.

The economists themselves were in no mood of complacent self-satisfaction. The Ricardian economics, as expounded by Mill, were not seriously assailed in England until shortly before Mill's death, but in the seventies they were subjected to a hostile examination from many different quarters. A conflict about method arose which raised some fundamental questions, but dissipated a good deal of energy. As a result much of the work done was negative rather than positive; it showed up the limitations and defects of the older economists rather than developed new theories; and even when constructive, it was suggestive rather than final.

The two greatest of these men, Jevons and Bagehot, will be treated later in the chapter, but something must now be said of four minor figures, none of whom composed a masterpiece, but who yet cannot be wholly ignored in even the briefest survey of British economists, and who collectively play an important part in the transition from the old political economy to the economics of our own day.

HENRY FAWCETT

From our present point of view Henry Fawcett (1833-84) is the least important of the four. His *Manual of Political Economy* enjoyed an immense popularity and went through many editions, but it has little scientific importance, being in the main a popular summary of Mill. Fawcett remained true to the old political economy, and his most important work was political rather than scientific. He was a genuine individualist social reformer, in whom dislike of State intervention was as strong as in any of the earlier advocates of *laissez-faire*. His career is a noble personal triumph over his disablement, and an example of what can be done by individual courage and self-reliance.

JOHN ELLIOTT CAIRNES

John Elliott Cairnes (1824-75) cannot be so summarily dismissed or so easily placed. He was both a disciple and a critic of Mill. In himself he was more a disciple than a critic; but in his writings he emphasized the points of difference and these have been the most influential parts of his teaching. He vindicated with supreme logical ability the deductive method of the old political economy, and clung tenaciously to the conception of an abstract science, concerned not with what ought to be but with what is, and neutral on questions of social reform. He poured scorn on those who sought to build up an economic science on the basis of a mere induction by the study of the facts of history and of contemporary life. The phenomena of wealth are so complicated that if the economist "declines to avail himself of any other path than that of strict induction, he may reason till the crack of doom without arriving at any conclusion of the slightest value"

Cairnes, however, saw that the deductive method had been abused, and he was himself careful to verify conclusions reached by deduction by an appeal to facts. And, if the science must be neutral on social questions, the economist himself need not be, as he showed in his book on *The Slave Power*. He saw also that the Ricardian assumption of competition was too sweeping and too rigid, and he took over from Mill the conception of "non-competing groups," and so emphasized it that it has become his own. The average workman, he points out, finds his power of competition limited for practical purposes to a certain range of occupations; and society as a whole is divided into a number of non-competing groups. Though hostile to most of the new influences that were seeking to re-fashion political economy, Cairnes, by the prominence which he gave to his differences from Mill, himself exercised a destructive rather than a constructive influence.

CLIFFE LESLIE

Thomas Edward Cliffe Leslie (1825-82) was, like Cairnes, an Irishman. He is important chiefly as the pioneer of historical economics in England. The first influence which impelled him in this direction was that of Sir Henry Maine, who had used the historical method to criticize abstract theories of jurisprudence, but this was later reinforced by the works of German writers who laid stress upon development in economic life, and upon the study of history as the method by which the "laws" of this development could be ascertained. He condemned the abstract method on the ground that it introduced a false simplification and threw little light on the real nature of wealth. He regarded the whole economy of every nation as the result of a long evolution "in which there has been both continuity and

change, and of which the economic side is only a particular aspect or phase."

It is difficult to estimate Leslie aright, for the manuscript of his most important work was lost, and his published essays are only fragments. Undoubtedly he pressed both his attacks on the deductive method and his claims for the historical method too far. The historical method is a check upon the abuses of deduction, not a substitute for deduction. It can show that a "law" for which universality is too rashly claimed is really the product of local or temporary conditions; or that policies which would be injurious in a highly developed economic system may have some justification in a ruder state of society. The pioneers of the historical method reinforced powerfully an existing impulse towards the study of economic history though they did not succeed in making economic history a substitute for abstract economics. The "laws" of economic development proved even more brittle than the laws of the Ricardian political economy, and the attempt to found economics upon pure induction was even more illusory than the exclusive use of deduction.

ARNOLD TOYNBEE

Part of this was already seen by Arnold Toynbee (1852-83). In achievement he has little title to rank at all amongst the great economists, but his influence far exceeded his achievement, and he represents some of the most interesting tendencies of the period. He showed how the theories of the old political economy were rooted in the facts of their period, and pointed to their inadequacy as guides to social reform. It was indeed zeal for social reform which made Toynbee study political economy and history, and, though he was a

critic of Ricardo, his chief aim both as a student and as a reformer was to reconcile divergent tendencies and interests. Thus, while he stressed the value of history, and the relativity of many of the classical doctrines, he recognized that deduction must accompany historical investigation. Again he sought to convince the working-classes, through lectures and personal contact, that economists were neither hostile nor indifferent to their well-being; and that it was a mistake to regard political economy as being "against" the working-classes. As a social reformer he never ceased to place reliance upon individual and voluntary effort, but, without becoming a socialist, he was ready to welcome an extension of State action. He emphasized the human side of economics and he sought to interest the working-classes in the subject. He was thus one of the pioneers of the movement for adult education for the working-classes, which in our own day has made such strides.

His early death cut short a most promising career. He had published nothing of importance himself, but after his death a volume of lectures on *The Industrial Revolution* was prepared from his own notes and from those taken down by his pupils. Although great advances have since been made in the study of the subject, the book has enjoyed an immense popularity and has been many times reprinted. It is as much a study of the old political economy as of the industrial changes, for Toynbee considered that the change in economic ideas was one of the most important factors in the industrial revolution, and he sought to establish the connection between changing facts and changing ideas. The volume also contains other addresses and many fragments; and there is in it enough of Toynbee's noble personality to keep it alive long after research has superseded its historical framework.

WALTER BAGEHOT (1826-1877)

Walter Bagehot finds a place in this series chiefly on account of one book, *Lombard Street*, whose excellence in its own province has never been surpassed, and which has thus gained a permanent place in economic literature. But he was by no means a one-book man. His *Economic Studies*, though fragmentary and incomplete, are a notable defence of the procedure of the old political economy. And he was much more than an economist, for two other works of his, *Physics and Politics* and *The English Constitution*, have rivalled his *Lombard Street* in reputation and in popularity. Even this great trilogy does not exhaust his literary achievement, for in numerous articles he showed himself a literary critic of fine taste and discernment. His literary style has a freshness and vivacity that reflects his own zest for life; and his most serious writing, even on the nature of an abstract science, is never ponderous and dull. No economic writer can be read with more ease and pleasure; the danger with such a writer is, indeed, that what is read so easily fails to lodge permanently in the memory. Here, however, some safeguard is provided by the number of striking phrases which not only illuminate their subject, but remain in the mind of the reader as signposts along the road he has travelled.

Banker and Editor. Literary excellence of this sort does not admit of any simple explanation, for it is, in some sort, a product of genius. But it is only exhibited by those who have a full command of their subject, whose knowledge of it is not simply the knowledge of words gained from books, but the knowledge of things gained from experience. To a writer on political and economic subjects, this direct contact with life is specially necessary. Bagehot possessed it in

an unusually high degree, for his was not a merely literary versatility. The works on which his literary reputation rests were composed in the intervals of an active career as banker and editor. His family were West country bankers and he himself, after studying at London University, followed in his father's footsteps. Though he humorously complained, when he first entered the bank, that he could neither add up figures correctly nor convince his family that sums were matters of opinion, he proved an able man of business. Later, he widened his activities by becoming editor of the *Economist* newspaper. His combination of gifts made him an influential figure in the City of London, and he was consulted on financial matters both by Liberal and by Conservative Chancellors of the Exchequer. It was indeed his suggestion that led to the adoption of the Treasury Bill as the chief instrument of short-term borrowing by the State.

He was thus near enough to the facts of business to view them as realities and not abstractions; but he also possessed a philosophic mind, to which abstract reasoning was congenial; so he was saved from being merely a man of detail. He knew, moreover, that those who stand nearest to an object seldom get the best view, and that a true perspective implies a certain detachment. Accordingly, whenever he had any important literary work on hand, he tried to get away from London to some quiet place, preferably by the sea. His books, indeed, smack of open country and salt water rather than of the study and the office.

The Conflict of Methods. His general position as an economist is seen better in the wider, though unfinished, *Economic Studies*, than in *Lombard Street*. He liked to boast that he was one of the last men in England who belonged to the ante-Mill period, who had learnt

economics directly from the words of Ricardo and not through Mill. For Mill, Bagehot's admiration was never excessive; but he never renounced his early allegiance to Ricardo. Yet he was far from insensible to the new influences of his own age; indeed, he was one of the first to apply the doctrine of evolution to politics and economics; and he therefore recognized the importance of the historical method. He denied, however, that the historical method had controverted, or could possibly controvert, Ricardo. Rightly understood, deductive political economy and historical economics were complementary, not antagonistic; and he set himself to make clear the terms of their reconciliation. Political economy, he contended, was not "a questionable thing of unlimited extent, but a most certain and useful thing of limited extent." It is "the science of business, such as business is in large productive and trading communities," an analysis of the "great commerce." It deals with the men who carry on that commerce, and simplifies human nature by assuming that they are animated only by motives of business. It speaks not of real men but of imaginary ones; and this has not been well understood. Though thus limited, it is not the unnatural thing it would seem to be. The desire for wealth is so preponderant in many minds that it is easy, if necessary, to regard it as the sole object. Therefore "in some very large scenes of our present English life, political economy is exactly true," e.g. on the Stock Exchange and in Lombard Street. In advanced commercial nations an analysis of the unchecked consequences of the "business motive" will be a near approximation to a large part of their life, though not a perfect account of their complete career.

The Defects of the Old Political Economy. He admits defects in the mode in which political economy has

been treated in England. In the first place, it "has often been put forward, not as a theory of the principal causes affecting wealth in *certain* societies, but as a theory of the principal, sometimes even of all, the causes affecting wealth in *every* society." In the second place, and largely in consequence of this first defect, "economists have been far more abstract, and in consequence much more dry, than they need have been." So long as the vision of universal theory vaguely floated before them, they shrank from particular illustrations. In the third place, they have not been as fertile as they should have been in verifying their science by an appeal to concrete facts.

On the other hand, the suggestion that abstraction should be abandoned in favour of a purely inductive study of facts, is dismissed as impracticable. We might as well hope for a complete record of human conversation as for a complete record of commercial facts. The facts are one thing to-day and another to-morrow; nor at one moment does anyone know them completely. Statistics are merely the "scrap of scraps" and are full of pitfalls for the unwary.

Bagehot's handling of the subject was stimulating and suggestive, although it cannot be claimed either that he himself completed the desired reconciliation or that, when it came, it followed precisely the lines indicated by him. Yet even here his work possesses a permanent value, for he sets out in clear, forcible, and intelligible language the nature of an abstract science of economics and its relation to practice.

"Lombard Street." In *Lombard Street* he achieved an unqualified success. His description of the English money market, as it stood about 1870, is not, of course, in every detail a faithful picture of the changed market of to-day. In its broad outlines, however, it still holds

true ; and the book is still more alive than many that are more up to date, for the author knew the City from the inside, and he not only reveals its secrets but gives us its very atmosphere. Bagehot was concerned with the principles underlying financial organization, and he was a critic as well as an expositor. He was impressed by the delicacy of the modern financial system, and by the responsibility which rested on the Bank of England as the guardian of the only real reserve of gold in the country. He thought this position anomalous and dangerous, but it was the product of historical development, and, as a practical banker, he recognized that it was too firmly established to be overthrown. He, therefore, confined himself to proposing safeguards.

In the first place, the Bank of England should recognize and act on the obligations implied in the system. In particular it should be prepared at a financial crisis to lend freely, though at a high rate of interest, to all solvent borrowers, for only by doing so could it stay the spread of panic. The policy here recommended by Bagehot has become an established financial doctrine, and, as a result of its application, the severity of the financial crisis which marks the transition from boom to depression has been greatly reduced. No writer did more than Bagehot to explore the real nature of a financial crisis or to disseminate sound views, as to the way in which it should be handled. As he had seen several crises from the inside, his treatment of the subject is unsurpassed.

In the second place, he advocated drastic reforms in the government of the Bank of England. He desired to substitute government by permanent experts for government by transient amateurs. The appointment of a permanent governor and deputy-governor was the

reform on which he placed most reliance. Here his reforms were too bold to find a ready welcome in conservative financial circles, but since 1914 some approach has been made to his plan; and the present governor has, by re-election, held the position since 1920—a longer tenure than that enjoyed by any of his predecessors.

This book represents Bagehot's greatest achievement as an economist, and though it is devoted to a single topic it has a secure place amongst those economic classics which students ought to read for themselves. He is a dull reader who fails to find it entertaining as well as instructive.

A Brilliant Essayist. One almost perfect piece of work stands to Bagehot's credit in *Lombard Street*; but it is no disparagement of his talent to suggest that at this critical stage in its development economics could not be regenerated by an essayist, however brilliant. Despite his suggestive application of the idea of evolution to politics and to economics, he remained too firm an adherent of Ricardian principles to recognize the extent of the necessary reconstruction. A more massive intelligence and a steadier purpose were needed for the work of reconstruction. Bagehot, indeed, considered that explanation and limitation would suffice, but the work of Jevons was now showing beyond the possibility of dispute that reconstruction of some sort must be attempted.

WILLIAM STANLEY JEVONS (1835-1882)

Economic science in Britain has suffered much from the untimely death of many of its votaries; but few of its losses have been greater than that sustained by the drowning of Jevons, at the age of 46, at a time when the science was at a critical stage in its development.

He was then engaged upon a general treatise which was intended to be his most important contribution to the subject, but he had made little more than a general plan and a series of beginnings. Yet, by virtue of earlier work of a varied character, he takes his place among the foremost British economists, and he has exercised a considerable influence upon the development of the science. His external life was uneventful. Save for a few years spent at Sydney as assayer at the Mint, it was the quiet life of a student, teacher, and writer. Short as it was, it was broken by ill-health, which made teaching a strain, and which finally led him to abandon academic work to conserve his strength for the execution of the numerous literary projects which he had formed.

The Fallacy of Exclusiveness. He was a logician as well as an economist, and he naturally took part in the contemporary discussion of the appropriate method of studying economics. Here his general attitude was sane and moderate. He recognized the value of the historical method ; the present economic state of society cannot possibly be explained by theory alone, without taking into account the long past out of which we are constantly emerging. But he uttered a timely protest against "the fallacy of exclusiveness." Historical political economy could not destroy or replace abstract theory. The first principles of political economy are so widely true and applicable, that they may be considered universally true as regards human nature, and historical political economy will only verify their long-continued action in widely different states of society. He thought that political economy would split up into a number of separate branches or sciences, but that underlying these there must be a general theory of economy provided by abstract reasoning and holding

a place among economic studies similar to that held by mechanics in the physical sciences. Hence, one important part of Jevons's own work consists of the mathematical analysis of fundamental economic conceptions, such as utility.

A Critic of Ricardo. A champion of deductive reasoning, Jevons was nevertheless as severe a critic of Ricardo as any of the historians. In his view deduction was not simply to be vindicated; it was also to be regenerated. It was necessarily mathematical in character, since the science was concerned with quantities; and this fact must be explicitly recognized and its implications fully developed. Economic theory should be expressed as a calculus of pleasure and pain. Jevons was here developing the work of neglected predecessors, and since his time the mathematical treatment of economics has had a considerable vogue. But here, as elsewhere, he did not himself wholly escape from the fallacy of exclusiveness; and the claims which he made for the mathematical treatment were somewhat exaggerated, and have never been fully accepted. But his criticism of Ricardo was more one of substance than of form. He thought that "that able, but wrong-headed, man, David Ricardo, shunted the car of economic science on to a wrong line." English economists had been living in a fool's paradise, and they must no longer shrink from the laborious work of picking up the fragments of a shattered science, and starting anew.

Jevons found fault chiefly with Ricardo's labour or cost of production theory of value; and he rashly committed himself to the other extreme, saying that value depended entirely upon utility. He rendered important service in analysing an element in the problem which Ricardo had neglected, and especially by making and

developing the distinction between total and final, or marginal, utility. By elaborating the principle of diminishing utility, he prepared the way for a deeper and more symmetrical treatment of the problem of value. It is true that here, as so often elsewhere in economic theory, and as he himself fully recognized, other writers had anticipated him. But their work had passed unnoticed, and it is with Jevons that the principle first enters English economics as a vitalizing force, almost at the same time as it was being independently developed by continental writers. A more serious criticism is that in its application Jevons shows himself as one-sided in the one direction as Ricardo had been in the other, and with less justification. His book, the *Theory of Political Economy*, published in 1871, was sparkling and brilliant, but over-emphatic and unjust 'to his predecessors. It was left for Marshall to show that Jevons's principle was not so revolutionary as its author supposed; and that it completed rather than subverted the Ricardian theory.

Statistical Investigations. The faults that are only too apparent in this brilliant book must not obscure the truth that Jevons was a many-sided man, betrayed in this instance into one-sidedness. Even did it stand alone, his work on abstract theory would make him a classical author, but it represents only one-half of his achievement. It is balanced by equally fruitful statistical investigations, concerned mainly with periodic fluctuations in currency, credit, and trade. In dealing with these concrete problems Jevons endeavoured to substitute exact numerical calculations for guess-work and groundless argument. "Perhaps one might say that theory is all-important; and yet fact is all-important also. . . . Facts alone without theory are mere disconnected records. . . . Again, anything,

it has been said, can be proved by figures. What we want are facts carefully marshalled." These words are fragments taken from an incomplete preface to a collection of papers which he was preparing to publish at the time of his death, and which was subsequently issued under the title *Investigations in Currency and Finance*. In emphasizing the importance of statistical inquiries, Jevons gave a great impetus to a branch of economic studies, which already had an honourable history, but which has since assumed an ever-increasing importance, and which is to-day being pursued more actively and more fruitfully than ever before. Some there are, indeed, victims possibly of the fallacy of exclusiveness, who believe that the future of economics lies with the statistician and the accountant.

These papers will always rank high in their own class for the union of speculative ingenuity and careful spade-work. Some of the most important of them are, moreover, concerned with the practical problem, important then as now, presented by the alternation of boom and depression in trade and industry. Here Jevons is remembered for the association which he endeavoured to establish between trade fluctuations and sun-spots. He discovered a coincidence in time between the appearance of spots on the sun and the failure of harvests, and he established a connection between the failure of harvests and industrial depressions. Since his time, however, further statistical investigation has revealed no coincidence in time between sun-spots and trade cycle. Modern theories still recognize the influence of harvests upon trade, and take account of the probability that there is a certain periodicity in harvest yields in different districts, but modern developments have reduced the influence which can be attributed to the harvest over the course of

trade. Jevons's work here was, however, bold and suggestive, and he did point to a true cause of fluctuations in trade, though to one of diminishing importance.

State Action. In yet another direction Jevons separated himself from the classical economists, and in his attitude towards State action he reflects the spirit of a new age, marked, it has been said, by the growth of collectivist opinions. He did not carry this reaction to extremes; indeed, he remained of opinion that the *laissez-faire* principle properly applied was the "wholesome and true one." It was the principle of Adam Smith, in obedience to which many restrictive laws had been repealed. "But," asks Jevons, "does it follow that because we repeal old pieces of legislation we shall need no new ones?" On the contrary, "while population grows more numerous and dense, while industry becomes more complex and interdependent, as we travel faster and make use of more intense forces, we shall necessarily need more legislative supervision."

There might be a new branch of political and statistical science which would investigate the limits of the *laissez-faire* principle. Jevons himself was of opinion that the great mass of the people would not have healthy houses by the ordinary action of self-interest. The only chance of securing good sanitary arrangements was to pull down the houses which were hopelessly bad, as provided by an Act of Disraeli's Ministry, then in power, "and most carefully to superintend under legislative regulations all new houses that are built." He found, moreover, that the utmost benefits were secured by extensions of government action of a kind quite unsanctioned by the *laissez-faire* principle, e.g. in the provision of libraries and parks. He drew the old and sound, but often forgotten, distinction between community of production, which was often wasteful,

and community of consumption, which was generally economical; and he caustically observed that "our idea of happiness in this country at present seems to consist in buying a piece of land, if possible, and building a high wall round it." The general interests of the public are sacrificed to the rights of private property and private action.

The Last of the Transitional Figures. Great as was his achievement, Jevons died with his work undone. He had a highly original mind, and his more mature contributions to the subject might have been epoch-making. But in his *Theory of Political Economy* he shows so much of the temper of the revolutionary that doubts arise as to whether he possessed the combination of gifts demanded for complete success. For it was reconstruction and not revolution of which the old political economy stood in need. And Jevons had shown an inclination to cast aside much of the material which the old political economy was able to provide for the new economies. Speculation as to what he might have accomplished is, however, vain. He had, in fact, accomplished much; and he had given to the older theories a shock which left them reeling. The work of reconstruction could no longer be delayed, and, fortunately, there was in Alfred Marshall a man with abilities and temper equal to the task.

The student, like the author, will derive considerable help from Prof. Foxwell's Introduction to *Investigations in Currency and Finance*, and from *Principles of Economics*, Appendix I (Marshall).

CHAPTER VII

ALFRED MARSHALL (1842-1924)

ALFRED MARSHALL was the presiding genius in the transformation of the old political economy into modern economics. When first he turned to economic studies in 1867, the influence of Mill was still dominant, and almost unchallenged; long before he published his last work in 1923 the transition to modern economics had been effected, largely as a result of his labours. For he did more than any other man to appease the conflict about method, to re-fashion the instruments of economic analysis, and to re-open to the science a vast and fruitful field for their exercise. Others contributed to this work of reconciliation and reconstruction, but none did so much as he, and his pre-eminence is therefore indisputable.

A Specialist Economist with a Moral Purpose. Marshall came to the study of economics indirectly, and in answer to an imperative moral call even more than to an intellectual attraction. He gave himself unreservedly to the subject, being the first great economist to do so, for even his recent predecessors, such as Mill and Jevons, had divided their attention among a number of the moral sciences. In this way Marshall founds a new race of specialist economists. Like so many other specialists, however, he brought to his chosen subject a mind trained for other work. He gained high honours at Cambridge as a mathematician, and his subsequent intellectual development led him through metaphysics and ethics to economics. The order of these studies in itself reveals the moral impulse underlying his intellectual development. But Marshall

did not leave his contemporaries or posterity to guess at his motives; in many different places and ways he explicitly avowed them. For example, he tells us that when he first began the serious study of political economy, he bought a small oil-painting of a man's face, "with a strikingly gaunt and wistful expression, as of one 'down and out.'" He called it his patron saint, and devoted himself to "trying how to fit men like that for heaven." Whenever he feared that his interest in the semi-mathematical side of economics was making him a "mere thinker," a glance "at my patron saint seemed to call me back to the right path."

An Austere Idealism. In him the instinct of the evangelist was wedded to the intellect of the scientist; and the issue was not a mawkish sentimentalism but an austere idealism. In his view enthusiasm for the ideal was the best of human possessions, but the sober student of social problems must be occupied mainly with the actual; he must resist every temptation to make a short cut to the ideal. Thus he could sympathize with the noble aspirations which he found in many Socialist writers, whilst subjecting their practical proposals to criticism. He himself was oppressed by the immense difficulty both of economic studies and of social improvement. But the length and the difficulty of the way were obstacles which his austere idealism triumphantly surmounted. He once said that the problem which he set himself to solve was how to get rid of the evils of competition while retaining its advantages; and representing the question by a length of a thousand miles, the progress which he hoped to make towards it might be four or five inches. "If I make that progress I shall be well contented with my life—if I make it possible for the next man to start four or five inches nearer the goal than I have."

In yet another direction this same austere idealism finds expression. He held that economics is valuable mainly as a handmaid to ethics and to practice, and he tried to write for men of affairs as well as for students. But Professor Pigou found amongst his manuscripts a passage in which he writes: "Students of social science must fear popular approval; evil is with them when all men speak well of them . . . It is almost impossible for a student to be a true patriot and to have the reputation of being one in his own time."

Economics and Social Reform. Marshall himself avoided controversy, partly to conserve for his own work that physical strength of which, despite the length of days he ultimately enjoyed, he never possessed a superabundant store, and partly as a result of his conception of the relation of economic science to practical policy. In his view, it is the work of men of affairs, not of men of science, to put forth detailed schemes of social improvement. The economist cannot dictate a policy; he can only assist the statesman or the social reformer in arriving at one. The lack of a unified social science renders impossible a scientific solution of social problems; and common sense must remain the final arbiter. Economic theory does not claim to displace it from its supreme authority, but only to assist it in one part of its work. The only method of inquiry possessed by the human mind is to break up a complex problem into its component parts; and this is how common sense itself proceeds, though less methodically than formal analysis. In any social problem, one of the hardest of the parts, in which untutored common sense is most likely to go wrong, has to do with actions and sacrifices which commonly have a money price. Here the economic "engine" can come to the aid of common sense, with the result that what is generally

the most difficult part of the question can be treated with greater certainty than any other. Having done its work, economics retires and leaves to common sense the responsibility of the ultimate decision. "Sometimes indeed the economist may give a practical decision as it were with the authority of his science, but such a decision is almost always merely negative or critical." Usually, however, his counsel in practical affairs "bears only the authority of the individual who gives it: he does not speak with the voice of his science."

A Reconstruction of Economic Science. The work to be done by the economic "engine," though thus limited, was of supreme importance, and it was Marshall's life-work to provide an engine well adapted to this work. This involved a considerable reconstruction of economic science. Marshall's success in this sphere was largely due to his avoidance of that "fallacy of exclusiveness" which Jevons had denounced, but had not himself wholly escaped. Marshall brought to the work of reconstruction the spirit not of a destructive revolutionary, but of a reforming conservative. He delighted to build bridges between the old doctrines and the new; and he preferred to interpret the writings of earlier economists with constructive imagination rather than with destructive literalism. He gave them the benefit of every doubt, and read much between the lines which they actually wrote. In this way as much as possible of the tradition of the classical political economy was carried over into the new economics. His insistence upon continuity, rather than upon change, concealed from casual readers the real extent of the changes which he was actually introducing.

The Question of Method. On the question of method his attitude was tolerant and comprehensive. Different students would use different methods or combinations

of methods, according to their individual aptitudes; and constructive work of all kinds was to be welcomed, for the difficult problems with which economics deals could not be attacked from too many different directions. He was moved to protest only when the exponents of a particular method made extravagant claims for it, or depreciated the value of other methods. Here the crucial instance of his moderation is provided by his attitude to the mathematical method so loudly proclaimed by Jevons. As the natural result of his own early training, and independently of Jevons, Marshall had adopted a mathematical approach to some economic problems. He was a mathematician in a sense in which Jevons could never aspire to be one, but his attitude towards mathematical reasoning in economics was surprisingly cool. He was the founder of modern diagrammatic economics, but he claimed for his diagrams merely that they gave a firmer grasp of many economic principles than could be got without their aid, and that they provided a useful approach to many problems of pure theory. He assigned an even lowlier place to algebra in the economist's armoury as a sort of convenient shorthand for private use. Marshall was always afraid that mathematics might run away with the economist, and carry him out of sight of the actual facts of economic life.

He was equally judicious in his appreciation and criticism of the historical method. That method had exposed "the most vital fault" of the early nineteenth century economists, their failure to see how liable to change are the habits and institutions of industry. To a much greater extent than is revealed in his published work, Marshall was a student of economic history; but he was alive both to its difficulties and to its limitations. He thought it almost as difficult to explain the past as

to predict the future; and since history never repeats itself exactly, the claim to throw direct light from the past on the problems of the present must always be viewed with suspicion.

These different methods in combination would build up an economic science for whose central scheme of reasoning, but not for whose dogmas, universality could be claimed. To economic dogmas Marshall did not assign any universality: "For that part of economic doctrine, which alone can claim universality, has no dogmas. It is not a body of concrete truth, but an engine for the discovery of concrete truth."

A Difficult Subject. Marshall insisted that practical problems could not be settled offhand by appeal to general doctrines. Results cannot be predicted from a mere knowledge of fundamental forces, without making a full investigation of the particular circumstances in which the forces act. The study of ideas and the study of facts must proceed hand in hand; deduction and induction are indissolubly wedded.

Economics, moreover, should not be the study of a single motive, even though that motive be so general and so constant as self-interest. It should deal not with the activities of an abstract "economic" man, but with those of real men. It deals with the whole of man's nature, though it lays chief stress on certain special aspects of it. The scope of the subject is thus broadened and deepened, and it is brought into closer touch with actual life. But it is also made a more difficult and a more complex subject.

The preceding sketch of Marshall's general attitude to his subject must now be supplemented by a brief review of his chief published works. These, however, do not tell the whole story of his achievement, for as a teacher at Cambridge he wielded an immense influence

over his pupils, many of whom, becoming in due course themselves teachers of the subject, gave a wider currency to the ideas of their own master. This academic influence derives a special importance from the fact that Marshall was slow to publish his work to the world. He was not a rapid worker, but he set out to write large and comprehensive treatises; he was exceedingly fastidious in their execution, and he altered the general scheme of his volumes several times in the search for an unattainable perfection in arrangement. Many of his ideas were therefore known through his teaching before he gave them their finished form in his published work; indeed, some of the theories contained in his latest work, published in 1923, had been elaborated by him nearly fifty years earlier.

Marshall's "Principles." The *Principles of Economics*, first published in 1890 as volume one of a work to be completed in several volumes, is undoubtedly his greatest achievement, for it contains many of his most important contributions to economic science, and it is the most rounded and finished of his publications. It is not, however, a completed whole, but part of a larger design which was later abandoned; hence, as a work of literary art it falls short of complete success. Marshall wanted to write for the man of affairs as well as for the student, and up to a point he succeeded. He banished some of the more difficult and technical parts of his exposition to footnotes and appendices, and so smoothed out the path of his reasoning that most readers are unaware on a first exploration of the real difficulty of the country over which an expert guide is leading them. As an instrument of scientific exposition his style has the great merits of clarity and accuracy; but in its rather flat competence there is no trace of the genius of literary craftsmanship, for

Marshall, great as a scientist, was little of an artist. This criticism, indeed, is only pertinent because he was so great a scientist that his work is destined to occupy permanently a high place in economic literature.

The Theory of Value. It is in the *Principles* that Marshall constructs the modern engine of economic analysis. Only a few of the improvements which he introduces can be noticed here, and these may be made to centre round the theory of value. Before the publication of Jevons's *Theory of Political Economy*, Marshall had been studying, and expounding to pupils, the mathematical aspects of demand and utility. Priority of publication belongs undoubtedly to Jevons, but Marshall was not so greatly indebted to him as would superficially appear. His own theory was developed largely independently of Jevons, and when he finally published his rounded conclusions on the subject in 1890, he fitted the new conceptions into the old doctrine. On the one side he corrected the undue emphasis which Jevons had placed upon utility, assigning to it and to cost of production, with masterly discrimination, their respective parts in the determination of value. His theory combined and completed the analysis of Ricardo and of Jevons.

On the other hand, the conception of the margin was extended beyond utility to other economic factors capable of small variations; and the idea of substitution was introduced to explain the process by which equilibrium is attained. The effect of these changes was to reveal the economic world, not as a simple chain of causation in which each link was determined by its predecessor and itself determined its successor, but as a sort of solar system in which the motion of every body affects and is affected by the motion of every other.

For example, it is inaccurate to say as Jevons did

that "cost of production determines supply, supply determines final degree of utility, final degree of utility determines value," for apart from other objections to the arrangement of this chain of causation, the whole conception of such a chain is misleading. Marshall substitutes for it the conception of mutual determination; supply price, demand price, and amount produced mutually determine one another, subject to certain other conditions; each one of the three affects, and is affected by, the other two. This new conception, though more complicated, was more wonderful and more fruitful than the old; for it showed how all the elements in an economic problem act and react upon one another. Marshall was also the first economist to give its proper importance to the element of time as a factor in economic analysis. He introduced the distinction between the "long" and the "short" period, recognizing that this element of time "is the centre of the chief difficulty of almost every economic problem." The distinction between the immediate and the ultimate effects of any course of action had always been an obvious one; but Marshall first had the genius to work out the implications of this obvious truth in the economic world; and he displayed it as one of the most baffling of the factors with which the economist has to deal.

In the light of these central conceptions, and with the aid of numerous other original and useful notions, Marshall constructs in his *Principles* an engine of economic analysis of wonderful delicacy and strength. Although he deals with only a portion of economic theory—production, exchange, and distribution—that portion is the central one, and the engine itself is practically complete. What remained was to apply it to other portions of economic theory and to concrete problems.

“Industry and Trade.” To this task Marshall now set himself, but his success in it, so far at least as his published work is concerned, was not nearly so complete as in the construction of the engine itself. The quest for completeness and perfection lured him on; and publication was delayed until a time when vigour in execution was impaired. It was not until 1919 that his second great volume, *Industry and Trade*, appeared, though much of it had been written at an earlier date. This volume has not even that imperfect unity which the *Principles* possessed as part of a larger ideal whole. It is a study of modern conditions in industry and trade; and it really falls into three separate parts, which are but loosely connected, and which collectively do not constitute an artistic whole. First, there is a history of the special contributions made to industrial development by the leading countries in the second half of the nineteenth century; next the dominant tendencies of business organization are discussed with reference to the same period; and, finally, the special problems of monopoly are treated with reference to the transport industry and to the different forms taken by the movement towards combination in different countries. Despite its lack of co-ordination, the work, if properly used, has a unique value as a store-house of Marshall's wisdom on a large variety of subjects to which he had given profound thought. As such it is probably more useful to those who are themselves studying the same problems than to the student in search of a textbook.

“Money, Credit, and Commerce.” Finally, in 1923, came *Money, Credit, and Commerce*, revealing still more clearly the impaired vigour of the veteran. It is mainly a collection of earlier fragments loosely sewn together. But it does give to the general public

much that was valuable in Marshall's teaching and already in part known through his pupils. In particular it contains a highly novel but really simpler exposition of the theory of money, in which the rather artificial meaning assigned to the demand for money in the traditional exposition and the difficult conception of velocity of circulation are both avoided.

Conclusion. It is doubly fitting that this outline should conclude with Alfred Marshall. On the one hand, British economists to-day are indebted to him more than to any other economist of the last generation for the tools with which they ply their trade. His *Principles* is still the standard British exposition of the subject. On the other hand, Marshall himself made no claim of finality for his work, for he regarded economics as a growing science. Even the economic engine which he had so greatly improved might in time be superseded by a superior model. And the field for its exercise was an immense one, of which he himself had touched only the fringes. One of his pupils tells us that in his teaching economics was treated as a subject in the course of development; it was not a settled affair which had to be learnt, not criticized. Therefore, in concluding with Marshall, we avoid any suggestion that the story of our British economists has itself come to an end.

Since his death a volume of *Memorials* has been published. Besides numerous papers which he delivered at different times, it contains an interesting selection of his letters to fellow-economists, which serves to reveal the man to those who know him only through his books. A brilliant memoir by Mr. Keynes and reminiscences by other old pupils bring the man and the teacher vividly before us, and should be read by all who desire a closer acquaintance with him than can be provided

in this brief sketch, which is itself largely indebted to this volume.

Finally, Marshall possessed a catholicity of temper which fits him to conclude a series which began with Adam Smith. Thus the story of our British economists exhibits a certain unity as well as a notable growth. For Marshall was a close student and a sympathetic interpreter of the work of Adam Smith, whom he worshipped as unique among economists for "his balance, his sense of proportion, his power of seeing the many in the one and the one in the many, his skill in using analysis to interpret history and history to correct analysis." In these qualities Marshall was himself akin to Adam Smith, and he infused them again into the study of economics. With him the subject may be said to display both the powers and the temper of maturity; for it had emerged from a stage of youthful self-conceit, in which some of its votaries had exhibited that narrow and pedantic dogmatism and ill-bred assertiveness, which seem to be the growing pains of every science, and from the further stage of disillusion and self-criticism. And now in its maturity Marshall restored to it the humane and urbane temper which had marked the eighteenth century philosopher from whom, as a separate study, it took its rise.

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